

REVIEW OF IRAQ RECONSTRUCTION

HEARING BEFORE THE COMMITTEE ON INTERNATIONAL RELATIONS HOUSE OF REPRESENTATIVES ONE HUNDRED NINTH CONGRESS SECOND SESSION

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REVIEW OF IRAQ RECONSTRUCTION

THURSDAY, JUNE 8, 2006

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Committee met, pursuant to notice, at 10:10 a.m. in room 2172, Rayburn House Office Building, Hon. Henry J. Hyde (Chairman of the Committee) presiding.

Chairman HYDE. The Committee will come to order. Last night at 6:15 p.m. justice was delivered to Abu Musab al-Zarqawi, Iraq's most wanted terrorist. Although many challenges remain in Iraq, his death seriously undermines the mission of al-Qaeda.

As President Bush said this morning, Zarqawi's death has the potential to "turn the tide in Iraq." His death is a victory in the Global War on Terror, and today we remember the innocent lives taken by Zarqawi and his terrorist network.

There is no doubt that the United States, with the cooperation of our allies, has engaged in dialogue and meaningful reconstructive efforts with the Iraqi people to help build a foundation for establishing a secure and sovereign Iraq.

The recent formation of the Iraqi Government by Prime Minister Nouri al-Maliki is a step in the right direction. The Iraqi people should be commended for their unforgettable sacrifices and commitment to rebuilding a nation from the ashes of tyranny, war, and sectarian strife.

The American people also have contributed to this process through their military and financial support to the fledgling Iraqi Government. Since the fall of Saddam Hussein, the American people have provided approximately \$29 billion in United States assistance to Iraq for reconstruction programs.

Through USAID and other United States agencies operating in Iraq, the American people continue to assist in restoring important sectors of Iraq's government and economy. These reconstruction projects are an integral part of the President's strategy to build a democratic, stable and prosperous country.

However, significant challenges to stabilize Iraq have resulted in important lessons learned that this Administration is internalizing and responding to. Nobody denies that mistakes were made. What is important is how the United States adjusts its strategy to serve the interests of the American people and to support the new Iraqi Government in implementing its agenda to bring security and stability to the Iraqi people. In other words, have we learned from our mistakes, and what are the lessons learned?

The war in Iraq has led to a divisive debate about the justification for the war's necessity. Regardless of where one stands on this issue, what is essential is identifying those elements necessary to build a functioning democracy in a part of the world that has never known that blessing.

One way the United States is contributing to Iraq's success is through improving the accountability and transparency of the Iraq reconstruction process through vigorous oversight provided by the Special Inspector General for Iraq Reconstruction.

Today we will hear from Mr. Stuart Bowen how this process is going. One thing we do know is that aggressive oversight works. A combination of audits, inspections and investigations have brought justice to criminals and have improved coordination and management of reconstruction projects.

We also welcome Ambassador Jeffrey back to the Committee to provide his views on these important issues, and additionally we will receive an update from Mr. Kunder on the U.S. Agency for International Development's role in the Iraqi reconstruction process.

I now am pleased to yield to my friend and colleague, the Ranking Democratic Member, Tom Lantos, for any opening remarks he may wish to make.

Mr. LANTOS. Thank you very much, Mr. Chairman. Before I get to my opening remarks, I respectfully request, given the importance of today's hearing, that all Members have an opportunity to make brief opening statements.

Mr. Chairman, let me briefly comment on the death of the al-Qaeda leader in Iraq, Abu Musab al-Zarqawi. This dramatic news out of Iraq will hopefully send a strong political signal to all Iraqis that the insurgents will not prevail.

While Zarqawi's demise is likely to have a positive impact on the security situation in Iraq both symbolically and operationally, we must not lull ourselves into a false sense of complacency that the job of ensuring a safe and secure Iraq is now near completion.

Mr. Chairman, there are many debatable points about our policy toward Iraq, but the gross mismanagement of reconstruction efforts is not one of them. Due to the exceptional work of the Special Inspector General for Iraq Reconstruction, the facts are clear. Billions of United States taxpayer dollars have been used unwisely in Iraq. The Executive Branch must not allow such slipshod management, and the American people, I am convinced, will not tolerate it.

This is not just about money. The international coalition's ability to exit Iraq responsibly, leaving the Iraqi people in better shape than before the war, is directly related to the success of our reconstruction efforts there. These efforts have been severely undermined by waste, by fraud and by abuse, and our troops have been needlessly exposed to greater risk because of such failures.

We therefore appreciate, Mr. Chairman, that you have convened today's hearing with our distinguished witnesses, particularly the Special Inspector General for Iraq Reconstruction, Mr. Stuart Bowen. The 23 Democrats on this Committee unanimously and formally requested this hearing because we believe that Congress has failed to conduct sufficient oversight over the Iraq reconstruction program. Without descending into the endless debate over the

number of hearings held or resolutions raised, we can all agree on one thing: It is imperative that the Executive Branch learn from its mistakes in Iraq and make dramatic changes to our reconstruction efforts to ensure that we are improving the lives of the Iraqi people.

Thanks to the diligence of the Office of the Special Inspector General, we now know the scope of the problem. Here are the facts, Mr. Chairman. During the reign of the Coalition Provisional Authority almost \$9 billion—that is \$9 billion with a B—moved through Iraqi ministries.

In another shocking instance in south-central Iraq, with little or no accounting for results, managers of the Coalition Provisional Authority funds could not account for nearly \$100 million in cash and receipts. Where did the rest of the money go? It is as if the CPA were dumping suitcases of taxpayer dollars into quicksand.

Recent court documents might indicate where some of the money went. One of two defendants arrested in connection with the waste and abuse pled guilty to accepting stolen CPA and United States property in Iraq and using it to operate a business. He secretly provided public officials things of value such as first-class airplane tickets, jewelry and prostitutes at a villa in Baghdad.

Another defendant who was serving as a comptroller for the CPA stole at least \$2 million in United States currency designated to be used for reconstruction in Iraq and conspired to transfer it to the bank accounts of others. One of these two thieves sent an email to the other in January 2004 that closed with the observation, I quote, “I love to give you money.”

Mr. Chairman, the gross mismanagement of our Iraq reconstruction efforts has not ended with the demise of the CPA. In a recent report, the Special Inspector General found that the United States continued to fund the restoration of 16 oil pipelines under the Tigris River despite persistent warnings from geologists that the soil was not conducive to drilling. We allocated nearly \$200 million for primary healthcare centers, but completed only six out of the 150 clinics intended to be built with these funds.

Unfortunately, Mr. Chairman, these are not isolated incidents. More than 75 percent of oil and gas reconstruction projects begun with U.S. assistance remain incomplete. More than 50 percent of electricity reconstruction projects are still unfinished, along with 40 percent of water and sanitation reconstruction projects.

Instead of ensuring that these vitally important projects are finished, the House has just approved a budget resolution on a totally partisan vote that slashed \$1 billion from Iraq reconstruction.

Mr. Chairman, we all recognize that the reconstruction of Iraq cannot be achieved overnight, easily or on the cheap, but the alarmingly slow pace of Iraq reconstruction and the misuse of United States and Iraq funds have serious repercussions for our own national security.

Insurgents have capitalized on popular resentment and anger toward the United States and the Iraqi Government to build their own political, financial and military support, and the faith of Iraqi citizens in the new government has been severely undermined.

The corruption and incompetence surrounding the rebuilding of Iraq has badly damaged our image abroad not just in Iraq, but

throughout the world. Money wasted on reconstruction boondoggles could have also been better spent on protecting American and Iraqi troops from insurgents.

Mr. Chairman, unless we show the Iraqi people that their liberation has brought tangible benefits or at the very least the restoration of essential services to pre-war levels, key factions will continue to side with the insurgents and not with the forces of freedom.

Until we succeed in training enough Iraqi forces to secure their nation independently, we risk leaving a destabilized Iraq. Therefore, the Executive Branch must listen closely to the recommendations of the Special Inspector General and other expert voices on how to overhaul our reconstruction efforts, and we must simultaneously redouble our efforts to create a truly sustainable Iraqi army and police.

Finally, Mr. Chairman, given Mr. Bowen's success in uncovering waste and fraud and abuse, I find it shocking that this House is prematurely curtailing his mission. We should be increasing Mr. Bowen's capacity to do oversight, not weakening it.

We know these are not simple tasks, Mr. Chairman, but the goal we all seek—a stable Iraq at peace with its neighbors—will remain elusive until we improve both the security and the economic environment in Iraq. Although the Executive Branch is charged with this responsibility, we in Congress clearly need to ensure that the job is done right.

Thank you, Mr. Chairman.

Chairman HYDE. Thank you, Mr. Lantos.

Because of the importance of the subject matter and this hearing, we are going to recognize everybody to make an opening statement that wishes to, stressing that making an opening statement is not mandatory.

We will limit the recognition to 3 minutes so everyone will have an opportunity to make a statement in 3 minutes. That saves us time, helps us get the witnesses' testimony, which I hope we are here to listen to, and get to the question period, which is very instructive.

With that in mind, Ms. Ros-Lehtinen is recognized for 3 minutes.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Chairman. I want to thank you for holding this important hearing today. I want you to know that some of us were on the Floor honoring you, and it is great I hope for you to be receiving honors when you are still around and kicking every day. Don't even think about retiring 1 day sooner than you must.

Mr. Chairman, the men and women of our armed forces are coalition partners, and those Iraqis committed to a free, democratic and peaceful Iraq continue to rise to the challenges before them. They are to be commended especially today for dealing a major blow to Islamic terrorists in Iraq.

What a headline, "Al-Zarqawi Killed, al-Qaeda Leader in Iraq Dead After Air Strike." This article says al-Zarqawi himself is believed to have wielded the knife in the beheadings of two of the Americans, Nicholas Berg and Eugene Armstrong, and earned himself the title of the Slaughtering Sheikh among his supporters. What a great title for him.

Through their hard work and the dedication of our United States forces, our coalition forces and Iraqi personnel, there are now more than just the democratic alternative to the Middle East, but it has given hope to the people throughout the region that there can be a better life than the murderous dictating of Saddam Hussein and his ilk throughout the region.

By promoting a liberal democracy in place of a brutal autocracy, we have mobilized countless Iraqis and millions more throughout the region who have demonstrated the will to fight the jihadists. Every day we are making progress. Every day United States forces transfer more security responsibilities to the Iraqis, giving them a vested interest and the tools necessary to secure their nation.

This doesn't come from Administration talking points and fact sheets. This comes directly from the field. One of our Subcommittee staffers, Matt Zweig, is currently serving in Iraq, and my stepson, Dougie, just returned from 8 months of serving as a Marine officer there.

We are making progress. There is a lot that can be improved upon no doubt, but this headline today tells you about the progress that we are making. I look forward, Mr. Chairman, to hearing the insight from our witnesses, our panelists, on the lessons learned, on the progress achieved and on the challenges ahead.

Thank you so much, Mr. Chairman.

Chairman HYDE. Thank you.

Mr. Ackerman is recognized for 3 minutes.

Mr. ACKERMAN. Mr. Chairman, thank you. The focus of today's hearing is reconstruction in Iraq, but I think we cannot talk about anything in Iraq without addressing the allegations surrounding the action of United States Marines in Haditha.

If these actions are true, we will be facing not just murder trials of United States soldiers, but an event as significant and detrimental to our efforts in Iraq as the Abu Ghraib abuses and as disastrous as MyLai was to our efforts and image in Vietnam.

Our success in Iraq depends on our ability to demonstrate to Iraqis that our efforts there will result in better lives for them. To date, that has not happened. No amount of electricity or clean water or oil production will convince them that we are a force for good and decency if our soldiers have murdered innocent Iraqi civilians and then we covered it up and lied about it. Regardless of all the good our troops have previously done in Iraq, Haditha will be the story that the Arab and Muslim world hears about us.

I associate myself with the remarks of Mr. Lantos. Many people believe that billions of dollars intended to protect our troops and help in the reconstruction effort have been misspent, possibly criminally, and then have been covered up by an Administration that doesn't even seem to care about investigating it. This Congress would be complacent in that coverup if we did not begin a criminal investigation.

We cannot and should not allow the Haditha investigation simply to focus on the troops in the field. Too often our Administration has skated by blaming lower ranking officials for things decided at higher levels. If the investigation reveals that senior officers or civilians engage in a coverup, then those senior officers or civilians should be made to pay the price.

Fundamentally, Mr. Chairman, this is also about leadership, leadership from Washington, from the President, the Secretary of Defense on down. If the Administration wasn't so busy playing fast and loose with the Geneva Conventions, maybe the message to our soldiers would have been clearer.

Maybe the message to their commanders would have resulted in the reporting of this incident instead of waiting for *Time Magazine* to disclose it. Maybe the Iraqis would believe us when we finally give them the results of this investigation.

We are in this mess because of failure, failure by the Administration to think seriously and carefully about what it would take to invade, subdue, control and rebuild a nation the size of California. We remain in this mess because the same Administration officials refuse to acknowledge where they were wrong.

The investigation into the events at Haditha puts us in a position where we are unable to accomplish our objectives in Iraq, and we are in this position again because our leadership has failed us again.

Chairman HYDE. The gentleman's time has expired.

Mr. Rohrabacher of California?

Mr. ROHRABACHER. Thank you very much, Mr. Chairman. Today I believe all Americans and all people who love freedom should be celebrating the departure of a blood soaked Islamo-fascist; who was responsible for the brutal murder of tens of thousands of fellow Muslims, whose only crime was to desire some modicum of democracy or freedom for their families.

Zarqawi was also responsible for the killing of a large number of American soldiers and Marines who came to free the Iraqi people from the secular dictatorship of Saddam Hussein, which also was responsible for the wholesale slaughter of hundreds of thousands of their fellow Iraqis.

Zarqawi led the effort to kill the American liberators of Iraq, yet Zarqawi himself was a Jordanian. The Muslims of the world should take note. The Western-hating gangster of Islam Zarqawi does not represent their faith, values or interests. It is totally out of touch and contrary to the values of a vast majority of Muslims who should now join with the people of Iraq along with non-Muslims in the West to build a peaceful and prosperous and tolerant world.

We can be proud. The American people have held firm even as we lost our young people, our young heroes who were there to liberate those people of Iraq, even as there has been criticism and nitpicking on the other side because there have been mistakes and shortcomings in every war that the United States has ever been in, but the American people have held firm even when we had to suffer savage attacks and we lost our children to these gangsters.

This hearing opens the discussion about the successes and failures of the American effort to liberate the people of Iraq and some of the shortcomings and some of the shining examples of success.

We did this, of course, all of this was done in pursuing the effort to establish a democratic model in Iraq for the Muslim world and to liberate the people of Iraq from their monstrous dictatorship.

Yes, mistakes have been made in every noble endeavor. Yes, there have been shortcomings that need to be corrected, but that does not in any way besmirch the historic commitment that we

have made or the moral basis of which we have decided to try to ensure that the people of the Muslim world have alternatives to this type of Islamo-fascism represented by Zarqawi.

Chairman HYDE. The gentleman's time has expired.

Mr. Delahunt of Massachusetts?

Mr. DELAHUNT. Thank you, Mr. Chairman. In your opening remarks you mentioned that aggressive oversight works. You were referring to the Special Inspector General for Iraq. I commend him for his obvious diligence and outstanding work.

Unfortunately, this Committee and this Congress have not conducted aggressive oversight. I serve on the Subcommittee that is entitled Oversight and Investigations. It is chaired by my friend and colleague from California who just spoke, Mr. Rohrabacher. It was interesting that he used the phrase that this "opens the discussion." After how many years are we beginning to discuss the reconstruction phase in Iraq?

I associate myself with the remarks of Mr. Lantos. I think they summed up the case. He referred to multiple examples of egregious fraud, abuse and mismanagement.

I would note that Mr. Bowen assumed his office in January 2004. I would suggest that that was late. That was very late, Mr. Chairman. Tragically, it has cost the American people billions of dollars in taxpayer dollars, as well as putting forth a perception, albeit unfair, that we didn't care. We made statements that didn't match the realities.

You know, the issue of contracting in Iraq could be the biggest corruption scandal in history, according to Transparency International. As a former prosecutor, my instincts tell me that that statement, given time and given hindsight of history, will prove to be accurate.

We have missed the boat. We have not exercised our responsibility as Congress. We have turned our back on our constitutional duty. I do hope, Mr. Chairman, that you authorize the Subcommittee on Oversight and Investigation into conducting a series of exhaustive and thorough investigations so that we may learn more about the mistakes so we don't make them again in the future.

Chairman HYDE. The gentleman's time has expired.

Mr. Paul of Texas?

Mr. PAUL. Thank you, Mr. Chairman. I too would like to associate myself with the comments made about the waste and the fraud and the corruption in the reconstruction in Iraq.

Obviously it is there, but I am not very optimistic that it is going to get cleaned up because I think it is the nature of government largesse that you always have waste and corruption, especially under the conditions that exist on wartime and that exists in Iraq. I think we ought to understand that that is the nature of things, and tragically I don't see it coming to an end.

I would much rather see some interest in stopping the destruction rather than the pretense that we can reconstruct Iraq. We have already spent about \$300 billion over there, and most of it has ended up in destruction of property. The taxpayers really get it. They get hit. They get hit. They pay for the destruction. Now ev-

everybody expects them to pay for the reconstruction. When is it going to end?

It will probably end when this country goes bankrupt because it does not make any sense. We are spending still \$8 billion a day in the military affairs over there, which ends up in more and more destruction of property.

There seems to be rather good success in building one building in Iraq that is coming along quite nicely, which I think is a tragedy, but it really tell us about our policy, and that is the construction of the great Embassy, the greatest, biggest Embassy that people have ever known in history I have heard. It is going to probably be \$1 billion before it is built.

To me and to the American people, I am sure they consider this an obscenity. It also symbolizes our permanency, which really defies our pretense of yes, we are getting ready to leave. Zarqawi is gone. We have had another milestone, which means why don't we use that as an excuse to getting out of that place?

No, we are there permanently. We have permanent bases that we keep building and refurbishing. They go well, here we are building this Embassy as big as the Vatican City. To me, it dumbfounds me that the walls around this Embassy are going to be 15 foot thick. I mean, that sounds like ancient China or something. Don't they know about grenade launchers? I mean, how is that going to protect us?

What a pretense that this is going to provide safety and stability and send a good message to the Iraqis. It just doesn't make any sense whatsoever that that is our most successful building going up in Iraq.

There are going to be 619 one-bedroom flats, a recreation building, a beauty parlor, a gym, a swimming pool and even its own school in this Embassy, a lavish American club which will be the lavish club for hosting receptions in the midst of this tragic financial circumstance that we have.

Now if you add Afghanistan and Iraq together, we have now approached a half a trillion dollars. It is time our policies change.

I yield back.

Chairman HYDE. The gentleman's time has expired.

Ms. Lee of California?

Ms. LEE. Thank you, Mr. Chairman. I want to also thank you for this hearing and to our Ranking Member, Mr. Lantos. It is, quite frankly, long overdue. I want to welcome and thank our witnesses for being here.

Now, as one who has from day one vehemently opposed this war because I did not believe it was necessary and we knew there were no weapons of mass destruction in Iraq, I believe, however, that given the fact that we bombed the heck out of that country and in many ways destroyed it, we have a duty and a responsibility to help rebuild it.

I also know we have a duty and responsibility to the American people, to taxpayers, to make sure that the resources and the billions of dollars that we put into Iraq are spent wisely and that there is oversight and some accountability.

Now, experts have reported on the reconstruction efforts. We have had reports. We are told that in this whole process of the no-

bid contracts, the awarding of no-bid contracts and the well-connected defense contractors that billions of dollars have been lost. I remember \$9 or \$10 billion. We still can't figure out where that went.

The lack of accountability and oversight, I think that has to be reconciled. I am curious, and when we get into your testimony I hope you address what processes and mechanisms are in place to make sure that there from this day forward is some accountability, but also what happened to that \$10 billion, if you found it yet. I think that we failed in our constitutional obligation to really protect the taxpayers in this process.

Finally let me just say yes, I agree with Mr. Paul. I think what I see taking place now is the final realization of the fact that we want a permanent presence of Iraq. This House passed, the Senate passed a resolution saying we did not want to authorize permanent military bases in Iraq. The American people don't want permanent bases there. The Iraqis don't, yet it is my understanding that now in the Conference Committee that for whatever reason that resolution or that amendment was taken out of the supplemental.

That makes no sense, so I am curious to find out from you all if you believe that part of what we are doing in Iraq will lead to a permanent presence with establishment of permanent military bases, or if in fact that is not the case I hope you say that.

Thank you, Mr. Chairman, and I yield the balance of my time.

Chairman HYDE. Mr. Poe of Texas?

Mr. POE. Thank you, Mr. Chairman. Thank you for your leadership in the House of Representatives. You are a great role model for all of us, and I appreciate your chairmanship of this very important Committee.

I had the opportunity to view the first free elections in Iraq on January 30, 2005, along with Congressman Chris Shays, and I learned that the Iraqis, like the American people, love freedom. They have tasted it, and they are not going to let it go even though it costs lives of Americans and Iraqis. Our troops, by far, are the finest in the history of the military, and their voluntary service is unparalleled in world history.

Like the success of the Marshall Plan at the end of World War II, rebuilding of Iraq needs to be successful as well. However, as a former judge in Texas I am concerned about alleged corruption in the rebuilding efforts. Those that prey on the misfortunes of war and those that make unlawful profits by war, those that have stolen in Iraq, those that are the thieves of Baghdad are war criminals, and their corruption must be brought to justice.

This country and the Iraqi Government must insist that justice rules the day, and we owe this to the American people and all freedom loving people in the world.

With that I yield back, Mr. Chairman.

Chairman HYDE. Thank you, Judge.

Mr. Schiff of California?

Mr. SCHIFF. Thank you, Mr. Chairman. I want to thank you and the Ranking Member for having this hearing today. At the outset, I wanted to express my congratulations to the American troops and to the Iraqi people who successfully led us to Zarqawi and killed a murderous scum that no one will mourn the loss of.

As the positive news out of Iraq has been few and far between, I want to take a moment to acknowledge how grateful I am and how grateful we should all be that he has been eliminated from the face of the earth.

I think it is also a hopeful sign that Iraq has now filled a couple of the key ministries, and we hope that that can facilitate the strengthening of the Iraqi Government and also hasten the withdrawal of our own troops from Iraq.

Turning now to the focus of the hearing, there is a real cost to the malfeasance and the reconstruction program in Iraq. There is a cost in dollar terms to the taxpayers. There is a cost in terms of the mission in Iraq and our ability to withdraw our own forces from Iraq. There has been certainly a cost to the Iraqi people.

There have been opportunity costs in the sense that the billions that we have put into reconstruction have not been wisely spent or have been syphoned off or corruptly used have meant that other areas, other needs have gone underserved.

I had lunch with a Guardsman who served in Iraq who told me about strapping plywood onto the door areas of his Humvee and putting sacks of sand or concrete in between them to create what has been known as the hillbilly armor. Those additional billions that have been wasted in reconstruction could have been put to better use protecting our troops.

There have been enormous costs, and not only I think is this the responsibility and fault of those that were administering the reconstruction in Iraq, but I think the Congress bears responsibility because we have not done oversight of this. We have been throwing money at Iraq reconstruction without adequate safeguards in place.

That we would now be beginning this process of oversight 3 years into the war is a blight on the reputation of this Congress and on our role as a co-equal branch of government.

I would like to see not only oversight. I would like to see accountability, the twin pillars. We have had no accountability for the failures of the reconstruction program. No one to my knowledge—no one, absolutely no one—has been held accountable for these failures.

I would like to see our Subcommittee on Oversight and Investigations become another Truman Commission. If we had half as many hearings on the Iraq reconstruction as we have had on overseeing the UN's finances we would be saving the American taxpayers a ton of money.

Chairman HYDE. The gentleman's time has expired.

Mr. SCHIFF. Thank you, Mr. Chairman.

Chairman HYDE. Don't forget to put the big dig in there too.

Mr. McCotter?

Mr. MCCOTTER. Thank you, Mr. Chairman.

First, gentlemen, thank you for your service to our country in these difficult times.

Off the bat, I would like to associate myself with the remarks of my colleagues who have indicated that they believe the congressional oversight over the reconstruction process in Iraq has been insufficient. I think it is inherently necessary for elected officials within this Congress to responsibly fulfill our duty to the public,

to engage actively and personally in oversight over the reconstruction process.

Secondly, I am very eager to hear your reports today because to a large degree what we are going to hear from you is the consequence of having an absolutely backward reconstruction policy for 3 years.

I will be more specific. We have concentrated reconstruction in Iraq on a top down basis where we would start with the National Government that hopefully would have elections, that would hopefully filter down to the provincial level, that would hopefully filter down to the local level.

This was done in spite of all evidence that societies tend to evolve from the family, through the community, to the provincial level and then to a National Government, which was our own experience here in the United States.

We also did it contrary to the understanding that the Sunnis, who had run a strong Central Government for a long period of time, would be very, very chary of a strong Federal Government in Iraq run by the people they had oppressed for all those years.

I believe that we should have run a reconstruction from the grassroots up, which is what I believe the Ambassador is trying to do now, and I applaud him for that. I would hope that in the investigations that we do over what has gone wrong from our initial backwards approach, I would hope that investigations and over-sights would also reveal why the United States of America held that top down position in the first place;

Why do we continue to hold to that position despite all evidence that it was not being particularly successful in the reconstruction of Iraq and whether or not we have learned our lesson and will avoid that mistake in the future, and should reconstruction occur in other countries, God forbid, that we then try to apply the principles that we ourselves used to develop into the nation we are today.

I yield back.

Chairman HYDE. Thank you.

Mr. Adam Smith of Washington?

Mr. SMITH OF WASHINGTON. Thank you, Mr. Chairman. I will be brief.

I just want to first of all echo the comments of my colleagues who congratulated our troops and the people of Iraq in the killing of Mr. Zarqawi today. That is a significant triumph, and I think we certainly should be happy about that and move forward.

Second of all, I just want to say that it is great that we are having this hearing. I wish that we had done things like this sooner and more often.

My concern in all of this is the oversight of the Iraq reconstruction. I think it was not planned well. It seems like there was a great deal of thought given to how to knock Saddam Hussein out, not as much thought, planning and action given to what to do then, and I think that is the great tragedy of this war at this point.

There has been very insufficient oversight with the exception of course of Mr. Bowen and the job that he is doing, which, as I understand it, is now in jeopardy, so we need to do more oversight

on how this money is being spent and what is happening with the reconstruction.

This hearing is long overdue, and I don't think that we will be able to solve all of the problems once you folks start talking, but I am glad we are doing it, and I think that is what I want to learn today.

With that, I look forward to hearing from the people who are here to testify. Thank you.

Chairman HYDE. Mr. Wilson of South Carolina?

Mr. WILSON. Thank you, Mr. Chairman. Mr. Chairman, as you get closer to the conclusion of your term, I just want you to know I am reminded daily of how significant you have been to people serving in Congress. We just appreciate so much your leadership.

As we proceed today on Iraq reconstruction, I have just returned from visiting Iraq on my sixth visit. I am very grateful I have the perspective that my oldest served for a year there, and I received daily reports from him on the reconstruction efforts.

I am so pleased again with the success that I knew would be coming. In fact, the killing of the mass murderer, Zarqawi, yesterday was an achievement that actually was done even before I thought could be done because of his ability to evade the American coalition and Iraqi forces.

I believe there is more progress than has been apparent. Every time I go I am so impressed by the young troops I visit with. I am just grateful, and with the United States Agency for International Development I hope the message comes out about the tremendous projects that are underway that have made such a difference in building a civil society in Iraq which protect American families at home.

Thank you for your service.

Chairman HYDE. Thank you, Mr. Wilson.

Mr. Chandler of Kentucky? Mr. Chandler waives.

Ms. MCCOLLUM. Thank you, Mr. Chairman. I want to thank you and the Ranking Member for having this hearing. I reflect the remarks of many others that this is long overdue.

I have been to Iraq several times, and every time that I have been I have heard about all the reconstruction going on and then talking to either members of our military who have returned home or to other people out in the field or looking at international reports, and by that I mean even listening to the BBC News quite often I was hearing an erratically different story from what we were being told in classified briefings without the opportunity to have this move forward.

This hearing is giving us the opportunity to examine the challenges, the problems, the things that we have not done well. That is the only way we can move forward in confidence. If we aren't able to move forward with hope and opportunity on some of these reconstruction issues we have in front of us then the Iraqi people will once again wonder where is the United States' commitment because that is what I have heard from average citizens in Iraq, "What are you doing?"

Mr. Chair, thank you for holding this. I look forward to this just being the beginning of a discussion. We do need to find out how we are going to make all the missing dollars, U.S. taxpayer dollars,

in this reconstruction, including the \$8.8 that has been talked about earlier today, how we are going to find out what happened to that and what kind of investigation we are going to have on that.

We need to have the same robust investigation on U.S. taxpayers' dollars as we did on the World for Food program.

Thank you, Mr. Chair.

Chairman HYDE. Thank you.

Mr. Flake of Arizona? Mr. Flake passes.

Mr. CARNAHAN. Thank you, Mr. Chairman and Ranking Member Lantos, for this vital hearing on reconstruction in Iraq.

I think it goes without saying that this Congress has not exercised sufficient oversight over reconstruction. It is our responsibility and duty to provide serious and meaningful oversight over the Administration's efforts to rebuild Iraq.

I had the opportunity to travel to Iraq in March 2005. In the year since, the progress has been too little and too slow. The billions of dollars have been wasted without questioning the Administration at a time when our country spends less than \$2 billion a year on alternative energy research, while spending \$7 billion a month in Iraq, is grossly irresponsible for this Administration to be wasting any money, let alone the billions it has in Iraq.

In addition to the immense cost of reconstruction, one of my main concerns is where we are in terms of Iraqi self-governance. Moreover, the basic infrastructure construction that they need is quite insufficient, and I question whether the Administration has a clear plan to complete this essential project.

I am also interested in looking at the model and learning from the model of the Truman Commission during World War II. Truman took this on as his patriotic duty in a way that was pro troop and pro taxpayer, and it was one of the most bipartisan Committees in this Congress.

I hope we can learn from that model and this Congress can join behind these efforts in a bipartisan way in a pro troop, pro taxpayer way to really turn this around.

Thank you, Mr. Chairman.

Chairman HYDE. Mr. Tancredo of Colorado? Mr. Tancredo waives.

Has everyone who wishes to make an opening statement fulfilled their urge? Good.

I would like to welcome Ambassador James Jeffrey. On August 10, 2005, Secretary of State Rice appointed Ambassador Jeffrey as Senior Advisor to the Secretary and Coordinator for Iraq. Ambassador Jeffrey is a career member of the U.S. Foreign Service, previously serving as Deputy Chief of Mission in Baghdad from June 2004 to March 2005.

Mr. Stuart Bowen is Special Inspector General for Iraq Reconstruction. He previously served as the Inspector General for the Coalition Provisional Authority. Mr. Bowen has served President George W. Bush as Deputy Assistant to the President and Deputy Staff Secretary and Special Assistant to the President and Associate Counsel.

Mr. James Kunder is Assistant Administrator of the Bureau of Asia and the Near East at the U.S. Agency for International Devel-

opment. From July 2002 to 2004, he served as Deputy Assistant Administrator for Asia and the Near East. Mr. Kunder has extensive government and private sector experience in assistance and international development.

Ambassador Jeffrey, if you would proceed with a 5-minute, give or take, summary of your prepared statement? The full statement will be made a part of the record.

**STATEMENT OF THE HONORABLE JAMES JEFFREY, SENIOR
ADVISOR TO SECRETARY RICE AND COORDINATOR FOR
IRAQ, U.S. DEPARTMENT OF STATE**

Mr. JEFFREY. Chairman Hyde, Mr. Lantos, Members of the Committee, it is an honor to be again here today to discuss our strategy for victory in Iraq and the important role of reconstruction in that effort.

What I would like to do is, as the Chairman said, submit my written comments to the record for the sake of brevity, but also to address I think head on the core issues that were raised in the comments by Members of the Committee.

I will spend a couple of minutes in a general sense, and then we can get into some of this in the question and answer period if that is all right with you, sir.

Chairman HYDE. Sure.

Mr. JEFFREY. As one who has been involved in reconstruction, I cannot underline too much how important oversight is on our part and that of USAID and the others working on the part of my friend Mr. Bowen, the Special Inspector General, other Inspector General agencies and of you, the Congress, and, frankly, of the media and the Iraqis.

In a huge endeavor like this being carried out in the midst of horrific combat, many errors will be made. Many decisions will be made that in hindsight were the wrong decisions, and we need to get to the bottom and do better. We think we are doing that, but we have to justify ourselves to you, and that is why we are here today.

There is one thing I would urge, however. There is a basic element of fairness at play here, and some of the comments I have heard I cannot associate myself with, to be very blunt. Hundreds of diplomatic personnel and civilian contractors, Americans and others, have died in action trying to carry out this program. They are also serving.

In honor of them and the people who serve with me, I want to say that most of these people are honorably doing their best under conditions that most Americans could not possibly imagine. They are honest, reliable people. Many of them are making mistakes.

There are differences, for example, between the \$9 billion that has been mentioned, and that is a concern to us, but that was not United States taxpayer money. For the record, we should point out that this was money from the Iraqi oil account that the UN and the Iraqis asked us in the immediate period after the fall of Saddam to rush into reconstruction at a time when all infrastructure was on its back, when there was no oil whatsoever being produced, let alone exported, when electricity was basically down.

It was urgent that we get a great deal of money out into the field. The Iraqis supported us, and, frankly, accounting measures by the standards that we use here today with United States funds were not applied. We have to explain that, and we will do our best to.

The same thing with some of the corruption cases that also flowed from that. These must be and they have been investigated, and we are here today to commit to doing that.

In other areas such as those mentioned by Mr. Lantos, the pipelines laid under the Tigris River, that was a huge mistake on our part, but I would like to say today, sir, those pipelines are under the Tigris because we went back, found out what we were doing wrong, got another contract with another company that did it right.

The same thing with the schools project. We are quite unhappy with the work of a major American contractor, and we are working with the U.S. military and looking at other funds. We have over \$100 million in medical equipment that we are planning on providing to those schools. Many of them have been partially done, and we are going to find ways to fix many, if not all, of these schools and proceed on. That has been the record.

As has been mentioned here with Ambassador Khalilzad's efforts, we started from the top up. Now we are doing it from the bottom up. We appreciate and we try to respond to your suggestions and your criticisms, but let me assure you that the vast majority of people who are working on these programs, whether they are making mistakes or not, are trying to do their best for their country and for our effort in Iraq.

Thank you very much, sir.

[The prepared statement of Mr. Jeffrey follows:]

PREPARED STATEMENT OF THE HONORABLE JAMES JEFFREY, SENIOR ADVISOR TO SECRETARY RICE AND COORDINATOR FOR IRAQ, U.S. DEPARTMENT OF STATE

Chairman Hyde, Mr. Lantos, members of the Committee, it is an honor to be here today to discuss our Strategy for Victory in Iraq and the important role of reconstruction in that effort.

The U.S. objective in Iraq is a federal, democratic, pluralistic and united Iraq, stable, at peace with its neighbors, prosperous, and an ally in the Global War on Terrorism. To accomplish this, all our efforts support the President's three strategic tracks—security, political, and economic—with the intent of having the Iraqis eventually take complete responsibility for these tracks. Our experience has demonstrated that this transition cannot be sustained without integrated progress on all three tracks. This must not only be in full consultation with the Iraqis, but increasingly with them in the lead. We are dealing with a highly political struggle for power, which is at the heart of the insurgency, and only Iraqis can determine the path ahead—the compromises, the critical issues, and the shape of their politics.

We have seen significant progress in recent weeks along the political track. Following a series of major electoral events, the Iraqi Council of Representatives recently approved the formation of a new government under Prime Minister Maliki. The delay in the appointment of the Ministers of Interior and Defense reveal legitimate divergences of opinion among the Iraqi political parties. We are encouraging the Iraqis to resolve these differences sooner rather than later. We are now at a turning point where political progress must be measured by significant steps taken by the democratically elected Iraqi leaders, rather than the successful accomplishment of well identified events laid out by U.N. Security Council resolutions or Iraq's Transitional Administrative Law. Success in these tasks will require determination and the ability to execute a myriad of small decisions correctly that will have a positive cumulative effect, rather than pulling off the big, spectacular event, such as a national election. Participation by all communities in Iraq will be important both to a successful outcome and the fostering of a sense of national reconciliation, along the lines of the Prime Minister's well received statement Tuesday. As discussed

above, forward movement on the political track helps to advance efforts in the economic and security tracks as well.

One area in particular where we are committed, with the Iraqis, to seeing an immediate reversal is in the recent rise in sectarian violence. This is a top priority with both governments. Our joint security, political and economic initiatives are intended to help cement national unity.

Similarly, foreign assistance, led by the flagship U.S. programs, IRRF I and II, totaling \$20.9 billion, is essential to progress on all tracks. Supporting only the security track is not enough. Progress on the economic and political tracks is equally critical to victory, and this progress requires U.S., other international, and Iraqi funding, to augment the IRRF, whose new obligations authority expires this year. In particular, funding our teams that work closely with key Iraqi institutions, such as the Council of Representatives, the provincial governments and national ministries will be critical to our success in ensuring the democratic and effective character of these institutions.

In 2003, the World Bank estimated that rebuilding Iraq's dilapidated infrastructure would require over \$50 billion. The IRRF II \$18.4 billion program was designed by the Administration and Congress, not to take on that entire burden, but, rather, to quickly respond to the most pressing needs, including repairing an infrastructure neglected for over 20 years, increasing oil production and export, providing key essential services, developing Iraqi security forces, and strengthening democratic institutions and the private sector development. To a considerable degree IRRF II, supplementing the initial \$2.5 billion in IRRF I, is accomplishing that mission.

Reconstruction, generally speaking, can be described as a series of successes and some setbacks. We have been successful in rehabilitating water and sewage services and immunizing nearly all children against childhood diseases but face problems with capacity in the service delivery ministries. While efforts in the oil and electricity sectors have been hampered by years of mismanagement, neglect, smuggling, corruption and decay during the Saddam era, and targeted attacks on critical infrastructure, we have increased Iraq's total potential electrical generation capability by 30 percent. The dramatic increases in income in post-conflict Iraq (income per capita has nearly doubled from 2003 to 2005) has resulted in new vehicle and appliance purchases as well as increasing demand for fuel and electricity, but without a corresponding rationalization in pricing for these goods and services.

We are making progress. Almost all of the large infrastructure projects currently funded by the IRRF are expected to be completed by the end of the year. These projects are already having a significant impact on daily life in Iraq. IRRF projects have added, rehabilitated, or maintained more than 2700 megawatts of electricity. IRRF projects have increased access to potable drinking water for 3.1 million Iraqis and improved access to sewage systems for 5.1 million Iraqis. Success can be seen beyond the large infrastructure projects as well. Approximately 32 percent of Iraq's more than 14,000 schools have been rehabilitated or refurbished, including the provision of 8.7 million new textbooks. We have helped Iraq launch a stable new currency and stock exchange, develop more transparent budget procedures, and make millions of dollars in job-creating loans to micro, small, and medium-sized enterprises. Our technical assistance programs and diplomatic engagement have facilitated Iraq's reintegration into the global economic community, including an IMF reform program, its WTO accessions process, and a hugely successful Paris Club debt relief program. These are all admirable achievements, particularly when one considers the environment in which they were achieved.

Meanwhile, with the end of IRRF availability approaching, closeout of the IRRF has begun. As of May 30, of the \$18.4 billion appropriated in IRRF II, \$16.6 billion has already been obligated and \$12.3 billion has been disbursed, in addition to the \$2.5 billion from IRRF I. Our proposed FY 06 supplemental and FY 07 base budget assistance programs totaling almost \$2.4 billion will help Iraq in its transition to self-reliance in the civilian realm by focusing on building Iraqi capacity at the national and provincial levels and supporting emergency stabilization programs.

To ensure that the benefits of this progress reach the entire Iraqi population, we have initiated five Provincial Reconstruction Teams, with more to come, to strengthen provincial and regional governments as previously described by Secretary Rice.

I am also delighted to be here today with my colleague, Mr. Stuart Bowen. His organization, the Special Inspector General for Iraq Reconstruction (SIGIR), and other organizations within the Iraq IG working group that monitor our activities have done an incredible job under the austere and dangerous conditions with which we operate in Iraq. The Secretary has, on numerous occasions, reiterated her support to his agency's on-going activities in every way possible. I know Ambassador Zal Khalilzad echoes these sentiments.

What we do recognize is that the IRRF alone will not complete our work, as Mr. Bowen has suggested. But right now, our priority will be to complete the IRRF program's projects that are vital to boosting the Iraqi economy and capacity. At the same time, we will continue to work to convince our friends and allies to disburse the remainder of the \$13.5 billion pledged at the Madrid Conference and consider additional funding. As SIGIR reported at the end of April, our international partners have made more than \$800 million in new pledges since Madrid. The UN and the World Bank Trust Funds have made notable progress in implementing their projects as well. The UN has signed contracts for \$602 million and disbursed more than \$465 million of the \$910 million in its trust fund, and the Bank has contracted for \$172 million and disbursed \$55 million of the \$458 million in its trust fund. We are also looking at new modalities, possibly including an "international compact," to better link the global community with Iraq.

We continue to work actively with our international partners, including the IMF and World Bank, to increase support for the new Iraqi government. It will be important to build on existing coordination structures, like the IRRFI and the SBA. It will be critical that future assistance efforts also reinforce Iraqi commitments to undertake economic, political, and security reforms. We are consulting now with the Iraqi government on the best way forward. Our FY 2006 supplemental request of \$1.6 billion and our FY 2007 base assistance submission of \$771 million represent a shift away from the large infrastructure projects the IRRF funded to a focused capacity-building program that will help enable Iraqis to build and sustain a democratic society and healthy economy. Some of the programs funded will include infrastructure sustainment, capacity building at core Iraqi ministries, banking reform, agricultural development, rule of law, and democracy and civil society programs. As the House moves today to consider the FY 2007 foreign operations appropriations bill, we will look to your support for our continued activities in Iraq, including the State Department and USAID operating budgets.

Finally, let me again today commit the Department of State and our Mission in Baghdad to the most efficient, transparent, cost-conscious execution of funds entrusted to us, in the service of extraordinary national objectives, and to the best possible working relationship with those organizations such as SIGIR and GAO who provide valuable oversight.

STATEMENT OF MR. STUART W. BOWEN, JR., SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

Mr. BOWEN. Thank you, Mr. Chairman. I am Stuart Bowen, the Special Inspector General for Iraq Reconstruction. Thank you, Ranking Member Lantos and Members of the Committee, for having me here this morning to report on SIGIR's work in Iraq providing oversight.

I will provide a brief summary of my written statement. I also want to draw attention to the fact that our quarterly report, which details the work that we continue to perform in Iraq, is available at our Web site, www.sigir.mil.

I just returned from my twelfth trip to Iraq since my appointment a little over 2 years ago. I have spent approximately a total of a year in Iraq overseeing the efforts of SIGIR in-country to account for what the taxpayers are getting for the investment in Iraq reconstruction.

Very simply, that is what I see that you, the Congress, have appointed me to do with my staff, and that is to deter fraud, waste and abuse and go out and visit the sites and see what has happened, see what we have, and to help promote the success of the overall reconstruction endeavor.

My philosophy as an Inspector General is a little bit different than a traditional mold, and this is what I tell my auditors. When you go out and perform an audit and you find a problem, you immediately bring it to management's attention, and you work with them right then to resolve that issue.

My goal is that when an audit is finally produced that we are able to say at the end that issue has been addressed and is being resolved or has been resolved. I am happy to report that frequently we have been able to achieve that goal.

You asked in your letter, Mr. Chairman, how oversight has improved the reconstruction efforts. First, I want to say that you are right, as you said in your opening statement, that aggressive oversight works. That aggressive oversight has been present on the ground and is present today in Iraq through the Special Inspector General for Iraq Reconstruction.

I have 55 individuals serving over there—25 auditors, 10 investigators, 10 inspectors and support staff—undergoing the same rigors that everyone who has to operate in a lethal environment does. I am proud of their work.

We have also achieved results in the 2 years that we have been there. SIGIR Audit has completed 55 audits since inception with 165 recommendations. Most of them have been concurred with and responded to, \$10 million in direct savings and almost \$400 million in indirect and direct financial benefits.

SIGIR Inspections. Their job is to travel across Iraq and visit the sites. I traveled to Nasiriyah 2 weeks ago and visited a prison facility that is 40 percent done—it is being built by parsons—with our inspectors.

Sure, it was emblematic of the experience in Iraq. I think it is going to be a good project, but it is behind schedule. The scope has had to be revised because of cost issues related to security. That encapsulates, is a certain microcosm of the reconstruction experience, but eventually it will be a very modern prison operating in south-central Iraq.

My inspectors do that every day over there. They have completed 42 inspections and 97 limited reviews. We have also been using overhead imagery to look at project sites that no one can get to to make some assessment of how they are doing. We have done 112 of those with benefits through engineering suggestions that have been in the tens of millions of dollars.

Investigations. We have had 177 cases opened. One hundred and five are closed. Seventy-two are ongoing. We have had five arrests, two convictions. I think you know that Philip Bloom and Robert Stein have gone to prison for a long time, indeed probably for the rest of their lives, and they are ordered to pay restitution.

We have 20 cases already referred to the Department of Justice and at least \$13 million in recovered assets right now, so the answer is do we have oversight in Iraq? Yes. Is it aggressive? Yes. Is it making a difference? I believe it is.

The latest quarterly report updated what we said in the January report; that we are in the middle-of-the-year transition. We identified five critical issues that need to be addressed—improve infrastructure security, close the reconstruction gap, energize the oil and gas industry, fight corruption, a huge issue that Prime Minister Maliki has taken on, and engage the donor community.

Indeed, multilateralizing the effort to support Iraq's fledgling democracy and growing economy is essential at this stage, and I see that beginning to happen right now.

With that, I thank you for this opportunity to deliver brief remarks and look forward to answering your questions. Thank you, Mr. Chairman.

[The prepared statement of Mr. Bowen follows:]

PREPARED STATEMENT OF MR. STUART W. BOWEN, JR., SPECIAL INSPECTOR GENERAL
FOR IRAQ RECONSTRUCTION

INTRODUCTION

Mr. Chairman, Ranking Member Lantos, and members of the Committee—thank you for the opportunity to address you today on important matters regarding the United States' role in the reconstruction of Iraq. The Congress has tasked my office, the Special Inspector General for Iraq Reconstruction (SIGIR), to provide oversight of this substantial and challenging endeavor. I am here today to provide you with the most current reporting on SIGIR's oversight efforts in Iraq. I hope for a productive exchange of views and ideas in this hearing regarding Iraq reconstruction.

A few days after submitting our April 30, 2006 Quarterly Report to Congress, I returned to Iraq for my 12th tour, to work in Baghdad and across Iraq with SIGIR's 50 staff members currently stationed in Baghdad. I also had numerous meetings with those managing the operational and contracting components of the US reconstruction effort in Iraq. I returned from Iraq a week ago and I am pleased to provide you my observations garnered from my recent weeks of work in Iraq. I also want to update you on the critical issues raised in SIGIR's April 30, 2006 Quarterly Report to Congress.

As SIGIR noted in its January 2006 Quarterly Report, this is the Year of Transition in Iraq reconstruction. By the end of 2006, most programs and projects funded by the IRRF will be turned over to Iraqi authorities. With that prospect on the horizon, reconstruction planning and operations are increasingly becoming a joint enterprise, with U.S. and Iraqi officials coordinating more and more on the planning of key reconstruction initiatives.

With approximately 67% of the \$18.4 billion in Iraq Relief and Reconstruction Funds (IRRF) now expended and just under \$2 billion left to obligate, the U.S. reconstruction program in Iraq is fully engaged in project execution and sustainment, contract close-out, and program transition. Effectively advancing the progress of reconstruction and development in Iraq at this critical juncture requires the U.S. government to work closely with the Iraqi government and international donors to sustain the substantial U.S. investment in Iraq's infrastructure.

In its April 2006 Quarterly Report, SIGIR identified five critical issues confronting the reconstruction program at this watershed moment in the Iraq endeavor:

- *Improve Infrastructure Security*: critical nodes must be protected
- *Close the Reconstruction Gap*: fund the Secretary of State's initiative to build capacity at the local level
- *Energize the Oil and Gas Industry*: 94% of Iraq's national income is derived from this industry but only 9% of the IRRF was spent on it
- *Fight Corruption*: Iraq continues to lose capital to widespread corrupt practices
- *Engage the Donor Community*: the reconstruction program must be multilateralized

Improve Infrastructure Security—SIGIR continues to review the critical issue of infrastructure security. Insurgent activity impedes ongoing reconstruction projects and interrupts the transition of these projects to Iraqi control. Attacks on Iraq's oil and gas and electrical infrastructures have limited progress in the past within these key sectors. Early U.S. efforts to address this issue did not succeed as SIGIR auditors discovered in a review of a \$147 million program called Task Force Shield, which was established in September 2003 to build Iraq's capacity to protect its oil and gas and electrical infrastructure. Task Force Shield sought to cover 340 key installations, 7,000 kilometers of oil pipeline, and 14,000 kilometers of electrical transmission lines. The audit found that the program failed to meet its goals.

SIGIR is now executing a significant current review of this issue and will provide a classified report on it during this quarter. I addressed the infrastructure security issue with U.S. leadership in Baghdad during my recent trip to Iraq. Recognizing its importance, the U.S. Ambassador to Iraq has made infrastructure security an essential element of the Embassy Joint Blueprint for Success. Of note, significant progress has been made on infrastructure security over the past quarter. For exam-

ple, the Department of Defense dispatched a team of experts to Iraq last quarter to assess the protection of oil and gas facilities. They examined the sector's infrastructure protection programs, seeking to identify current security challenges. The team is now drafting a strategy that will help the Iraqis more effectively protect their energy infrastructure.

Close the Reconstruction Gap—SIGIR's October 2005 Quarterly Report identified a "reconstruction gap," which acknowledged that—for a variety of reasons, security being the most salient—the U.S. relief and reconstruction program will accomplish less than originally planned. The shortfall in various sectors was caused by more than 250 reprogramming actions, delays driven by security and administrative problems, poorly managed cost-to-complete schedules, and shifting emphases in contracting and program management. Of note, another reprogramming of the IRRF occurred this quarter: \$353 million was shifted from the electricity and health care construction sectors into non-construction programs. The reconstruction gap, however, comprises more than simply the notion that fewer projects will be completed than expected; it also addresses the shortfall's impact on outputs and outcomes.

Fewer projects completed axiomatically affects infrastructure outputs in Iraq—that is, fewer electrical projects means fewer megawatts on the grid, and fewer oil and gas projects means fewer barrels of oil produced per day. These constrictions have the cumulative effect of slowing improvement in the daily lives of Iraqis.

Ambassador Khalilzad's initiative to devolve more project decision-making to Iraqis at the local governorate level should help remediate the perceived effects of the reconstruction gap by giving Iraqis more of a say in reconstruction priorities that can be implemented close to home. Iraqis are now exerting a formative influence over project choices. Their management of the process through the Provincial Reconstruction Development Councils, assisted by coalition-staffed Provincial Reconstruction Teams, is building local government capacity in Iraq. The aim of the Ambassador's initiative is to produce more immediate, perceptible benefits for Iraqis in every governorate. The success of the Ambassador's initiative depends, in part, on new funding. Thus, SIGIR strongly supports the President's FY 2006 supplemental and FY 2007 budget requests, which propose an additional \$3.2 billion to help secure and sustain Iraq's critical infrastructure, to build the capacities of national and local governments, and to stimulate economic growth, increased employment, and private-sector development.

Energize the Oil and Gas Industry—Iraq has the second-largest oil and gas deposits in the world, with revenue from this sector providing 94% of Iraq's national income. Several factors, however, have limited progress in the oil and gas sector: breakdowns in the sector's deteriorated infrastructure, delays in forming the new Iraqi government, uncertainties regarding the legal framework governing Iraq's petroleum industry, and attacks on the sector's critical nodes.

Despite U.S. allocations of \$1.7 billion (9% of IRRF II) and supplemental Iraqi expenditures, the sector is struggling to return to pre-war oil production levels. Consequently, Iraq's national income has yet to achieve its great potential, which will be necessary if the country is to fully shoulder its primary role in recovery and reconstruction. Before the war, three assumptions were made about the oil and gas sector in Iraq:

- that oil and gas revenues in post-war Iraq would pay for much of the reconstruction
- that foreign private investment in the oil and gas sector would quickly flow into Iraq after the fall of the Saddam regime
- that post-war Iraq would be sufficiently secure to allow the development of oil and gas without hostile impediment.

To varying degrees, each of these assumptions has proved to be incorrect. Attacks on the oil infrastructure and a dilapidated system have slowed production and reduced potential revenue. Moreover, outside investors have been unwilling to commit capital to this sector until the insurgency abates and a permanent government takes power and articulates the rules of the game. Accordingly, the new Iraqi government, which is now forming, can provide necessary certainty by quickly drafting, approving and implementing laws that govern foreign investment in the oil and gas sector.

Fight Corruption—Corruption is another form of insurgency in Iraq. This second insurgency can be defeated only through the development of democratic values and systems, including the evolution of effective anticorruption institutions in Iraq. The primary players in this effort are the Commission on Public Integrity, the Board of Supreme Audit, and the 29 inspectors general in the Iraqi ministries.

SIGIR worked at generating support for these institutions early on and continues to highlight the need to support them financially. Iraq, the United States, and other

donors should sustain and increase funding for these essential institutions. New funding will bolster their effectiveness, while raising general awareness of the new Iraqi government's commitment to fighting corruption. Better anti-corruption practices would help improve the overall investment climate.

SIGIR previously reported that the Department of State developed an initiative to strengthen anticorruption efforts in Iraq. Now, at the request of U.S. Embassy-Baghdad, SIGIR and the DoS Office of Inspector General are finishing up a coordinated survey of the \$365 million supporting U.S. anticorruption programs in Iraq. The survey is intended to assess the initiatives and establish metrics to gauge progress. The next step should be to coordinate further with other donors on anti-corruption activities.

Engage the International Donor Community—As the year of transition in Iraq unfolds and IRRF funds concomitantly draw down, the role of international donor nations will become increasingly important. The next phase of Iraq's reconstruction will require a broader international effort. U.S. reconstruction officials should begin now to engage more directly and intensively with their international counterparts—the World Bank, in particular—to help ensure that donors implement pledges and develop, in close coordination with the Iraqis, the way forward for the next phase of reconstruction.

Funding is particularly needed to stimulate the oil and gas sector, which has thus far underperformed for a variety of reasons (noted above). SIGIR applauds the promising development of an integrated donor database to aid coordinating and de-conflicting donor activities, but the system needs more comprehensive inputs from all donors before it can become an effective management tool.

SIGIR is now in its third year of providing oversight for reconstruction and relief in Iraq, detecting and preventing waste, fraud and abuse in the lethal operating environment that is Iraq today. Moreover, we continually seek to help improve the controls, processes and accountability measures of those managing Iraq reconstruction. I instruct every SIGIR auditor and inspector to focus on achieving real-time results by reporting problems immediately upon their discovery, which allows for improved operational guidance within the reconstruction program. We do not wait for our reports to be released to apprise those concerned of our concerns.

This philosophy diverges from traditional IG oversight mechanisms, but it is essential in Iraq because there is no time for lengthy critiques. Thus, along with its oversight role, SIGIR also performs a consultative role, seeking to achieve real, money-saving results by applying relief and reconstruction lessons learned in real time.

In Iraq, SIGIR staff works side-by-side with the leaders of the reconstruction program: Ambassador Zalmay Khalilzad; General George Casey, Commander, Multi-National Force, Iraq; Ambassador Dan Speckhard, the Director of the Iraq Reconstruction Management Office; Major General Bill McCoy, who is about to complete his tour as Commanding General, Gulf Regional Division, U.S. Army Corps of Engineers; Major General Darryl Scott, Commander, Joint Contracting Command—Iraq/Afghanistan; and Ms. Dawn Liberi, the USAID Mission Director.

In the course of performing our oversight functions during this reporting period, we found that the U.S. Ambassador to Iraq, the Commander of the U.S. Army Corps of Engineers Gulf Region Division, and the Mission Director of the U.S. Agency for International Development have continued to improve management coordination of the Iraq reconstruction program.

To facilitate coordination and collaboration among U.S. oversight bodies covering Iraq, SIGIR created and chairs the Iraq Inspectors General Council, to ensure that all oversight organizations keep one another informed of current and planned work on overseeing Iraq reconstruction programs.

The April 30, 2006, SIGIR Quarterly Report to Congress provides SIGIR's latest series of new audit and inspection reports, which, taken together, detail the current challenges, issues and concerns confronting the Iraq reconstruction effort.

More specifically, SIGIR issued 29 audits and inspections this quarter, which contain 58 new recommendations. Although these audits and inspections raise a variety of concerns, SIGIR generally found many instances of effective reconstruction projects and the overall picture, though mixed, nevertheless conveys a sense of gradual progress. SIGIR concluded that the likelihood of a project's success was high if quality control had been integrated actively into the project's management and if government oversight was consistent and disciplined.

SIGIR's audit work this quarter included a performance review of the contract to construct primary health care centers, an audit of reconstruction management information systems, and an examination of the planning and processes for transferring reconstruction assets to the new Iraqi government. The primary health care center report presents a difficult story.

Our comprehensive look found shortfalls: only 6 of 150 clinics have been completed, although 75% of the funding had been spent. In addition, 14 more clinics are being completed under the original contract, each with construction issues yet to be resolved. The Iraq Reconstruction Management Office estimates that approximately \$36 million will be required to complete 121 partially constructed clinics that were terminated for convenience.

The 13 inspections completed this quarter continued SIGIR's mission to provide on-site assessments of projects in every sector across Iraq. Most of the projects reviewed are still in progress; thus, SIGIR's recommendations allow for money-saving course-corrections. SIGIR also inspected 55 additional projects through its rapid-review program, using local hires to visit sites that SIGIR inspectors cannot reach.

Overall, SIGIR inspectors found that, where management and quality assurance programs were active in the on-site construction process, the quality of work usually met or exceeded contract standards. Moreover, we believe that the expansive coverage of its inspections teams provides a highly visible deterrent to those who might be inclined to commit acts of fraud, waste, and abuse.

SIGIR criminal investigators are currently working on 72 open cases involving fraud, theft, bribery, and other alleged crimes. As outlined in our quarterly report, contractor Philip Bloom and former Coalition Provisional Authority (CPA) regional comptroller Robert Stein pleaded guilty to conspiracy, bribery, and money laundering in connection with a scheme to defraud the CPA.

Bloom now faces up to 40 years in prison and a fine of \$750,000. Under the terms of his plea agreement, he must pay \$3.6 million in restitution and forfeit \$3.6 million in assets. Bloom admitted that from December 2003 through December 2005, he, Stein (who faces 30 years in prison), and other officials conspired to rig bids to ensure that the contracts were awarded to Bloom. The total value of the contracts exceeded \$8.6 million. Bloom admitted paying Stein and other public officials more than \$2 million in bribes.

Earlier this year, SIGIR investigators conducted a sting operation involving an alleged criminal conspiracy. The sting resulted in the arrest of a contractor who offered a bribe to a SIGIR undercover agent. The case is currently being managed by the U.S. Department of Justice.

During this quarter, the third forum of SIGIR's Lessons Learned Initiative was conducted, focusing on program and project management in Iraq reconstruction. It brought a number of the leading experts on Iraq reconstruction together for a day-long review of the research that SIGIR had compiled on this critical issue. In the next few weeks, SIGIR will release its second Lessons Learned report, addressing contracting in Iraq reconstruction. The report examines the establishment and evolution of the contracting policies, procedures, and systems used by U.S. government agencies to address the challenges associated with strategy and planning, policies and processes, and staffing during the U.S. reconstruction effort in Iraq. This report is the result of extensive research and a formal, collaborative process involving a panel of experts from inside and outside government. Our recommendations include:

- Creating a Contingency Federal Acquisition Regulation
- Institutionalizing special contracting programs for federal agencies
- Including contracting staff from the beginning of any reconstruction effort's pre-deployment planning process
- Creating a ready-to-deploy reserve corps of contracting personnel who are trained to execute relief and reconstruction contracting for contingency operations
- Developing a system for formulating better contracting and procurement requirements in contingency operations
- Pre-competing and pre-qualifying a diverse pool of contractors with expertise in specialized reconstruction areas

The program and project management report will be released in late summer of 2006. It will examine the issues associated with initiating, planning, executing, controlling, and closing/hand-off of the Iraq reconstruction program. The report will examine a variety of execution challenges within the key project management issues: scope, time, cost, quality, people, communication, risk, and procurement (subcontractors).

SIGIR's first Lessons Learned report, which examined human capital management, was released in January. SIGIR will release a comprehensive capping report on all of our lessons learned in the Iraq reconstruction process during the first quarter of 2007.

As SIGIR looks to its next Quarterly Report, it is working on audits and inspections that address developing critical issues. For example, SIGIR is now conducting

a review of ministry capacity building efforts. Iraq's new government is now re-staffing the 28 ministries responsible for managing government operations. For transition to succeed, Iraq must ensure that its ministries are ready to receive and capably manage completed projects. U.S. transition plans anticipate this structural development to occur within Iraq's government this year. SIGIR's review will provide an update on this issue.

In conclusion, let me say that SIGIR remains committed to supporting the reconstruction efforts in Iraq by identifying ways to accomplish the mission more effectively and efficiently, and by deterring fraud waste and abuse of US taxpayer dollars. SIGIR's 55 auditors, inspectors and investigators will continue to carry out the duties and responsibilities assigned by the Congress in the highly hazardous environment that is Iraq today.

I remain proud of my staff's commitment and willingness to serve in harm's way, far from their families, and in very fluid circumstances. I will continue to do my best to ensure effective oversight and timely reporting, and to thereby advance the success of the Iraq reconstruction plan. Thank you for the opportunity to participate in this important hearing, and I look forward to answering any questions that the Committee may have.

Chairman HYDE. Thank you, Mr. Bowen.

Before we get to you, Mr. Kunder, I would just like to state for the record we have heard some sharp criticism of this Committee that we haven't been diligent enough in oversight, and that statement has been repeated by several Members.

I was able to get the record from the staff, and we had a Full Committee hearing on Iraq April 26, 2006. We had a Full Committee hearing on May 15, 2003; June 4, 2003; May 13, 2004. We had a Full Committee meeting, Members only, with the Prime Minister. We have had many Subcommittee hearings on Iraq.

The Middle East and Central Asia Subcommittee held a hearing on Iraq's Transition to Democracy. The Oversight and Investigations Subcommittee held a hearing on The Iraqi Documents: A Glimpse Into the Regime of Saddam Hussein. We have had one, two, three, four, five, six classified briefings. Not all the Members see fit to attend those classified briefings, but we have had them.

We have had many unclassified briefings with government and non-government officials. Yesterday the Committee held a briefing with Special Inspector General for Iraq Reconstruction. We have dealt with nine resolutions of inquiry that get filed and they get sent to us and that we have a full court press on those. Everybody piles on. Nine of those we have had.

I think we have been an active Committee on one of the most important issues facing this Congress and this country, and I just wanted to get a little balance into the record.

Now, Mr. Kunder?

Mr. ACKERMAN. Would the Chair yield?

Chairman HYDE. Who is seeking?

Mr. ACKERMAN. Who else?

Chairman HYDE. Mr. Ackerman, of all people. Go ahead.

Mr. ACKERMAN. I don't mean to surprise you, Mr. Chairman, but most of those hearings really were not oversight hearings.

I would call your attention to the fact that from May 2004 to April 2006—and that is when everything started to go to hell in a hand basket—there has been no Full Committee hearing on Iraq.

Chairman HYDE. Well, I have May 13, Full Committee hearing, The Imminent Transfer, Sovereignty in Iraq. You must have missed that one.

Mr. ACKERMAN. Not reconstruction, Mr. Chairman.

Mr. DELAHUNT. Mr. Chairman?

Chairman HYDE. Yes?

Mr. DELAHUNT. I have missed almost no hearings, Mr. Chairman. Mr. Chairman?

Chairman HYDE. Yes?

Mr. DELAHUNT. Would the Chair recognize me?

Chairman HYDE. I do recognize you. That was an informal recognition.

Mr. DELAHUNT. Thank you, Mr. Chairman. You made reference to the fact that the Subcommittee that is tasked with oversight and investigations has had a hearing on Iraq.

I hold the Chair of the Full Committee in high regard, but that was not an oversight investigation, Mr. Chairman. That was a glimpse into the mind of Saddam Hussein. To in any way suggest that the Subcommittee tasked with oversight and inquiry into reconstruction or any aspect of the Iraq issue is simply not based in reality.

Now, if you want to talk about whether we did an investigation and inquiry into the Oil-for-Food Program, I can tell you, Mr. Chairman, we sent staff all over the world. We sent them to Cyprus. We sent them to the Middle East. We sent them all over the world.

I think I am not overstating it. We had 16 hearings as far as the Oil-for-Food Program, but not one legitimate hearing on an issue that impacts the American people in a profound way. I would stand in profound disagreement with your statement.

We have not met our constitutional responsibility, and I hope that you will take it upon yourself to authorize Mr. Rohrabacher to expend the same effort and the same resources and the same number of hearings and to follow up today's hearing with actual investigative work that can hopefully help us as we move forward.

I thank my friend, the Chairman, for the time.

Chairman HYDE. Well, you are more than welcome.

At last, Mr. Kunder, we get to you.

Mr. KUNDER. Thank you, Mr. Chairman.

Mr. ROHRABACHER. Mr. Chairman, could I ask just as a point of personal privilege whereas I was just referred to?

Chairman HYDE. I am sorry. Yes.

Mr. ROHRABACHER. I would just like to note that I am not sure if my colleague and friend understands—I am sure he must—that the Oil-for-Food scandal had something to do with Iraq as well. You know, Oil-for-Food wasn't just about the United Nations. The other half of the Oil-for-Food scandal was Iraq.

Let me note that as we have heard today, this long-touted charge of \$9 billion that we are missing, it has nothing to do with American money. It is Iraqi money that was probably involved, oil money that probably was involved in the Oil-for-Food system.

Our investigation into the United Nations Oil-for-Food scandal was not just an overall view of the United Nations. It also dealt specifically with Middle East and Iraqi policy and was important to the people of the United States.

As far as our other hearing on the documents that have been captured during the war in Iraq and the translation of those documents, it had a lot to do with some aspects of the Iraqi war. It had

everything to do with, of course, charges made by the people on the other side of the aisle during the war about what our motives were and what was going on in Iraq prior to the decision of the United States to initiate this military action against Saddam Hussein.

That had everything to do with Iraq, everything to do with whether or not we were justified in the expenditures that we have made and the loss of life that we have suffered in order to liberate that country from that dictatorship of Saddam Hussein. These things were very relevant.

Mr. ACKERMAN. Would the gentleman yield?

Mr. ROHRBACHER. I can't because I believe it is time for us to get onto the witness. Thank you.

Chairman HYDE. The Chair would really like to get our witness' testimony before us, and then we can have a discussion.

With your permission, Mr. Kunder?

STATEMENT OF THE HONORABLE JAMES R. KUNDER, ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA AND THE NEAR EAST, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. KUNDER. Thank you, Mr. Chairman. I would just like to summarize my statement and try to answer all the questions the Committee asked us in a number of slides. If we can put the first slide up?

[Slide.]

Mr. KUNDER. What this slide attempts to show, Mr. Chairman, since one of the issues that has been raised repeatedly in questions is what the overall structure of our reconstruction program is, moving from Stage 1 in the early years of the Iraq Relief and Reconstruction Fund down in what we call Stage 1 at the bottom, we have done a broad range of activities, as the Committee knows, in essential services like electricity and water, health and education and so forth.

Where we want to ultimately end up, of course, all of us, is up in Stage 3 where the Government of Iraq, with its extensive oil resources, can provide for a secure and stable society, a market-based economy, an effective and legitimate government.

Where we are right now in our reconstruction program is what we are calling the transitional stage where we are trying to build and sustain Iraqi systems, and what we have divided that program into is four areas that I have listed in Stage 2—community stabilization, expanding economic opportunities, strengthening local governments and strengthening national capacity.

The point here is, we are trying to get Iraqi capacity and Iraqi resources linked to this reconstruction effort. That is the specific goal of the stage we are in right now and the specific objectives we have set.

The next slide, please?

In each of these areas, taking for example community stabilization, we have established concrete and quantifiable objectives. For example, in the area of business development 10,000 small or medium businesses expanded, 55,000 microenterprises, that is small-level businesses started, creating 100,000 jobs and providing non-formal education opportunities for young men and women between

16 and 25, those who might otherwise be recruits for the insurgency.

What I am trying to show in these first couple slides and to answer as many detailed questions as you would like, we have a very concrete plan to build Iraqi capacity during this period of the reconstruction effort and concrete and quantifiable goals we are trying to achieve.

Next slide, please?

The next couple slides just have to do with some other kinds of reconstruction programs that are going on. I am not going to try to suggest that everything happening in Iraq is a success story. That is obviously not the case, but we see so few slides, so few pictures of actual successes taking place on the ground that I wanted to share with the Committee at least some of these success stories as well.

This first slide is taking place near Dohuk. One of the things we are trying to do is focus on agricultural revitalization. While oil is the lifeblood of the Iraqi economy, agriculture is where jobs are created. Many, many more jobs are created in the agricultural sectors, so what we have been doing is improving the wheat economy in Iraq, getting the date palm economy, which was destroyed under Saddam's regime, back in business and doing this kind of agricultural work so we keep more young men down on the farms and create more of an agricultural economy in the countryside.

Next slide, please?

One of the impediments we have discovered to rebuilding that agricultural economy is simply no infrastructure left to restore farm implements, to repair farm implements, so U.S. taxpayer dollars have gone to create 14 tractor repair workshops around the country where we are repairing thousands of pieces of agriculture equipment that had gone to rust and weren't working because of lack of imports of spare parts and lack of skilled technicians to repair them. These are the kinds of things that are going on behind the scenes that are not making the front pages.

Third slide, please?

This is a typical one of thousands of a microenterprise training program. This one happens to be an attempt to teach tailoring to Iraqi women. There are thousands of these kind of projects going on.

Ambassador Jeffrey, in his statement, talks about the growth of the Iraqi economy, the increases in GNP that have taken place despite the attacks of the last couple of years. These are the kind of microenterprise projects that have taken place.

In the last couple of years, the U.S. taxpayers have supported a business registry at the Ministry of Commerce. More than 30,000—30,000—new Iraqi businesses have been started in the last couple of years since United States military forces arrived.

Next slide, please?

Business reconstruction in Iraq won't just take place at the microenterprise level. It has to take place at the macro level as well. These sessions displayed in the lower right of this slide shows a group of Iraqi business and government leaders working on World Trade Organization accession.

We have built and put in place the kinds of macroeconomic reforms that will allow the Iraqis to get debt forgiveness through the International Monetary Fund, so there is work taking place at the macroeconomic level, invisible work, not front page work, but critically important work to get Iraqi oil revenues linked to the reconstruction effort in Iraq.

Next slide, please?

There have been more than 3,000 schools built in Iraq. By this July, more than a third of Iraqi teachers will have gone through training programs to teach a new method, a more interactive, a more student participatory type of teaching and type of pedagogy. Is this going to solve the entire education problem in Iraq? Of course not, but these are the kinds of programs taking place.

One more slide perhaps because this is obviously a woman voting, but our new Administrator, Ambassador Tobias, just returned from Iraq. One of the things that most impressed him are the hundreds of Iraqi civil society organizations—lawyers associations, women's associations, business persons associations—that have sprung up.

One of the Members mentioned earlier the importance of getting grassroots democracy started in Iraq and not just starting from the top down. I can guarantee you that, again with United States taxpayer dollars, hundreds of these civil society organizations are starting a rebirth of democracy in Iraq.

There are other slides, but I think I will stop at that point in the interest of time.

Again in summary, Mr. Chairman, I don't want to pretend that no mistakes have been made. Mistakes have been made. We have had to reconfigure the reconstruction effort because of the violence of the insurgency.

As I reported to the Committee in the past, somewhere between 16 and 22 percent, depending on the program, of the reconstruction dollars are going into security, paying for armed guards so that we can conduct immunization programs for children and so forth. Clearly there are problems. Clearly we have not made as much progress as we would like, but I clearly want to point out that there has been a great deal of work done.

One of the issues in electricity, one of the reasons we continue to hear of problems and complaints from Iraqi citizens about lack of supply, is that while the total production capacity has gone up in Iraq since United States forces arrived, demand has gone up twice as fast because of these 30,000 new businesses, because of the ability of people to buy air conditioning units and generators and so forth.

In closing, Mr. Chairman, I would just like to reiterate what Ambassador Jeffrey said about the issue of waste, fraud and abuse. We very much appreciate the work that Mr. Bowen has done. We appreciate the work of the Congress in giving us a Special Inspector General for Iraq Reconstruction, but when we come to the Congress for our annual appropriation we also ask for money for our own Inspector General.

Lest Members of the Committee think that we had not thought about reconstruction, I can guarantee you that before Mr. Bowen's position was created we had embedded in our USAID mission in

Baghdad our own Inspector General staff who have conducted more than 90 financial and performance audits, so we take very, very seriously the issue of accountability.

Does that mean we have made no mistakes? Absolutely not. I have profound respect for all Members of the Committee, including the Ranking Minority Member. But I must politely categorically reject the statement that, if I took him correctly, that the reconstruction program has been significantly undermined by waste, fraud and abuse.

Perhaps it is a definitional issue. Waste, fraud and abuse to me means malfeasance, misuse of the taxpayers' dollars. Have we made mistakes? Yes. Have we had to reconfigure our program? Yes. But, if the impression left with the Committee is that somehow the majority of our problems are caused by waste, fraud and abuse, that is simply not true.

I read very carefully the Inspector General's quarterly reports and other audits he does. I do not want to speak for Mr. Bowen. That is not how I read what he has said, and that is not the fundamental problem. Most of the taxpayer employees who are out there are, as Ambassador Jeffrey said, very dedicated, very honest individuals.

We take quite seriously in response to the Committee's questions the issue of accountability. We have built our own accountability before SIGIR was created, and simply the fundamental problem is not waste, fraud and abuse in appropriated funds entrusted to us by the Congress.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Kunder follows:]

PREPARED STATEMENT OF THE HONORABLE JAMES R. KUNDER, ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA AND THE NEAR EAST, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman, members of the Committee, it is an honor to appear before you today. I welcome the opportunity to testify on behalf of the U.S. Agency for International Development (USAID). Today, I would like to describe to the committee USAID's contributions to the President's National Strategy for Victory in Iraq, as well as USAID's perspective on the work of the Special Inspector General for Iraq Reconstruction (SIGIR) and the USAID Inspector General.

During Administrator Tobias' recent trip to Iraq, he remarked on the courage, skill and dedication of the Iraqis who, themselves, are actively involved in the reconstruction process. While visiting the Provincial Reconstruction Team (PRT) in Babil Province, south of Baghdad, Ambassador Tobias met with Iraqi civil society organizations—local non-governmental organizations—who are spurring grassroots democracy through community groups in the region, despite personal threats and personal dangers. These groups described how they were mobilizing public opinion to lobby provincial leaders on community needs and priorities—a new, but exhilarating process in south-central Iraq. Ambassador Tobias noted how impressed he was with the sophistication that these Iraqi groups displayed in understanding the dynamics of democracy, their ready grasp of information technology as a communications mechanism, and their total commitment to a new, democratic Iraq.

The Administration has a clearly defined plan of action in Iraq, and USAID's programs, including our goals and benchmarks, support the President's National Strategy for Victory in Iraq in all three tracks—security, political and economic. The goal of the Administration's strategy is to create a new Iraq with a constitutional, representative government that respects civil and human rights; is able to maintain domestic order; keep Iraq from becoming a safe haven for terrorists; is capable of providing essential and other services to Iraqi citizens; and is able to harness its economic potential to create jobs and other opportunities for its people. The fundamental operating principle of this strategy is that transition to Iraqi self-sustainment and responsibility cannot be made without integrated progress on all three tracks.

I would like to talk about what USAID is doing now as well as what we are planning for the future. The civilian U.S. government (USG) effort is crucial to our success in Iraq. It not only supports the Multi-National Force-Iraq (MNF-I), it advances the Government of Iraq's (GOI) security actions against the insurgency. We have all heard how Iraqi and Coalition forces have wrested control of many cities and areas from the terrorists. In most cases, Iraqi troops, with the help of the Coalition, are maintaining security. Their success in these post-conflict areas will allow our forces to come home. But these Iraqi units cannot be expected to maintain peace and stability without the help of Iraqi civilian institutions, and without assurances that Iraqis can depend upon essential services provided by their government and can look forward to political participation and economic opportunities. Specifically, the U.S. and international civilian effort helps to enable and consolidate gains made in the security situation in several ways:

- It strengthens Iraq's capacity at the local and national level to govern and provide essential services to Iraqi citizens.
- It supports economic and social stabilization programs to minimize local support for the insurgency and foster support for the GOI.
- It assists the public sector's sustainable economic development by creating the enabling environment that will allow the private sector to flourish and by providing the private sector with the resources for the economic growth necessary to create jobs.

Since March 2003, USAID has been allocated approximately \$5.1 billion in Iraq Relief and Reconstruction Funds (IRRF). Of this amount, we have disbursed approximately \$4 billion and we expect to disburse most of the remaining funds by this summer. Now, let me briefly summarize some of our accomplishments.

ACCOMPLISHMENTS

First USAID is working with U.S. multinational units to help cities recover from the effects of battle and to begin the revitalization process. Projects are funded with complementary USAID and military funds. These projects are aimed at a combination of small, rapid programs followed by more complex projects that operationalize public services, promote representative local government and help resuscitate the economy. USAID's implementing partners provide the majority of project monitoring with assistance from the military as needed. USAID is continuing this effort through our new Community Stabilization Project, which creates opportunities for disenfranchised people.

Second, USAID-managed programs enable the democratic transformation in Iraq. USAID supported US goals and worked with the United Nations, the United Kingdom, Canada, and the European Community for a successful constitutional referendum in October 2005 and two national elections, in January and December 2005. Our programs have also provided expert assistance, drawing from the international community and Iraqi civil society to assist the Iraqi Constitutional Drafting Committee. USAID continues to support decentralization, empowering provincial and city authorities to provide essential services so that Iraq will be less likely to return an authoritarian centralized government. In the field, assistance teams work with the Provincial Councils to help them shoulder the burden of decentralized power.

Third, on the economic front, USAID worked with the Treasury Department to provide assistance to the Central Bank of Iraq that helped stabilize the dinar, prevented hyperinflation, and enabled Iraq to qualify for International Monetary Fund (IMF) lending and Paris Club debt rescheduling. Our assistance to the Ministry of Finance, through the design and placement of a Financial Management Information System (FMIS) at 53 centers country wide, is providing the GOI with the ability to track its budget and expenses. Through increased statistical gathering and analysis provided by the new Government Public Distribution System, USAID is able to provide assistance to the Iraqis in the most need.

Fourth, is working with the Project Contracting Office (PCO) to facilitate infrastructure repairs that are addressing gaps in power and water delivery. At present, USAID projects have added 1,292 MW of new or rehabilitated generation capacity to the national grid. This is a big portion of the over 2,700 MWs of new or rehabilitated capacity added in total by the USG. USAID partners provided operation and maintenance programs that will safeguard the investment of U.S. assistance. In telecommunications, USAID has installed 12 domestic switches and one international switch; installed a satellite gateway system and restored international calling service; and completed the installation of a consolidated fiber optic network which connects electricity and communications sectors and will allow Ministry of

Electricity officials to monitor and control the electrical grid from three central locations, greatly improving the reliability of electric power service to Iraqis.

USAID has refurbished or expanded 19 water treatment plants in five cities in Iraq increasing the supply of potable water from USAID projects to over 2.3 million Iraqis. USAID has also provided sewage treatment to over 5.1 million people. We have also been providing plant-level operations and maintenance support at major potable water and sewage treatment plants nationwide to ensure that these plants continue to function. In addition, USAID's rural water program is installing over 70 small water treatment systems in rural communities of less than 5,000 people throughout Iraq. The rural water program will help to supply clean water to almost 500,000 villagers each day.

Fifth, USAID is helping to build a long-term sustainable economy through our agricultural assistance programs. USAID's Agriculture Reconstruction and Development Program for Iraq (ARDI) is generating real jobs that sustain livelihoods—up to 28,000 jobs per day according to employment records in 2006. The program is managed by a small core of expatriate technical advisers and a larger team of 250–300 Iraqis through five offices across the country with less than 8 percent of project funds going towards security.

Thanks to canal and water infrastructure improvements made possible by small-scale grants, 445,000 Iraqi farmers now have improved efficiency of irrigation or access to water on 320,000 acres of farmland. ARDI has also established date palm nurseries in 13 governorates that will expand the true to type palm tree population by 410,000 new trees a year. Throughout the country ARDI planted 9,000 olive trees in 16 demonstration plots, which will produce high value oil.

Sixth, USAID is focused on providing a better future for Iraq and is investing in this future by focusing on the country's children and youth. A demographic youth bulge threatens Iraq's future. In 2004, half of all Iraqis were under the age of 20 years old. Given current population growth rates, the population will double by 2030. Despite vast oil reservoirs, Iraq currently has some of the lowest literacy rates and poorest health statistics in the region. USAID's education and health projects have partnered with the United Nations (UN) to improve education and health care for future generations through improving the quality of teaching and the learning environment for schoolchildren and improving the capacity of the Ministry of Health to provide quality essential services nationwide, including vaccinations against infectious diseases such as measles, mumps, rubella, and polio.

PROVINCIAL RECONSTRUCTION TEAMS (PRTs)

USAID is working cooperatively with other USG and Iraqi agencies in the current combined effort to expand Provincial Reconstruction Teams (PRTs). PRTs add value to the USG effort by building productive relationships between provincial and national government institutions; establishing lines of communication and cooperation between the civilian and military components of the PRTs; devolving USG authority to an interagency group outside of the host country's capital city; and linking external donor assistance to sub-national government structures and populations.

To date, four PRTs have been inaugurated in Iraq (Nineva, Tamim, Babil, and Baghdad) with four others having been stood up (Anbar, Salah ad Din, Dhi Qar, and Basrah) but have yet to be inaugurated. USAID has identified seasoned development professionals to serve as the USAID representative to each of the current and future PRTs, a procedure that will be replicated for each future US-led PRT opened in Iraq. This individual works to ensure the appropriate linkage of PRT activities with USAID programs, in particular its local governance program, as well as citizen participation for greater transparency and accountability and improved services delivery.

Additionally, the USG is working to engage other coalition partners in the PRTs. The USG, in coordination with these coalition partners, is currently setting up several additional PRTs. USAID is an active participant in this process and is staffing the necessary positions as they are made available and needed.

OUR COMMITMENT TO ACCOUNTABILITY

USAID has been, and continues to be, committed to ensuring that the resources that Congress has provided are managed effectively and transparently. Ensuring that these funds are utilized in such a manner only strengthens their impact on Iraq and improves the chances for success in Iraq. Accountability for Iraq funds is fortified by the right mix of experience and teamwork between our field mission in Baghdad and office in Washington. Experienced controllers, contracting officers, and Inspector General staff have been in Iraq since 2003 working with technical staff to help ensure program accountability.

We have welcomed the creation by the Congress of the Special Inspector General for Iraq (SIGIR), with whom we work closely.

Accountability starts with a fair and open procurement process. USAID complies with all applicable federal regulations and works closely with our Office of the Inspector General (OIG) to identify and address any weaknesses USAID may have had in its procurement processes. USAID's accounting and procurement systems ensure that the responsibility for procurement authorizations, justifications, and payments are segregated and recorded. A summary audit report on the contract award process found that USAID has generally complied with applicable regulations.

The President's Management Agenda shows USAID with "green light" progress on improvements in financial management. The Iraq Budget and Finance Team received the Administrator's 2005 Management Improvement Award for innovative financial information tracking.

USAID's on-the-ground presence is critical to project oversight. Well-trained, on-site contracting staff and project managers use informed judgment to oversee USAID projects. USAID's project managers are trained through a certification program in acquisition management practices. These personnel, located in Baghdad and regional offices, provide the technical oversight of our programs. Throughout this year, USAID personnel have averaged 14 project site visits per week. Our colleagues in the U.S. military have been forthcoming in providing not only security support for our staff, but assistance in monitoring USAID projects in those areas deemed to be insecure. USAID has also taken proactive measures, such as fraud awareness training for government employees, contractors, and grantees to reduce the likelihood of undetected fraud, waste or abuse of funds. OIG audit staff in Baghdad conduct performance audits of USAID programs on a regular basis and often concurrently to enable USAID to identify problem areas early on. There have been over 20 OIG performance audits and reviews and approximately 70 financial audits completed.

Finally, one of USAID's most valuable resources in ensuring program effectiveness and accountability are Iraqis themselves, who have greater freedom of movement than expatriates. USAID has 107 Iraqi national staff in its Mission in Baghdad and through its implementing partners, an extensive network of Iraqi organizations that are critical to the design and implementation of USAID's projects. USAID and its implementing partners currently employ thousands of Iraqis in professional career positions. These staff members have the community ties that facilitate Iraqi ownership and contribute to proper oversight of USG resources.

USAID works closely and collaboratively with SIGIR in support of the fulfillment of its mandate regarding the oversight and monitoring of funds appropriated or otherwise made available to the IRRF.

USAID has participated in or been the subject of a number of SIGIR audits or reports, including: the audit of USAID Mansuria Electrical Reconstruction Project, the audit to determine compliance with the Prompt Payment Act for IRRF expenditures; the audit of USAID's management of the transfer of IRRF projects to the Iraqi Government; and the audit of methodologies for reporting cost-to-complete estimates under P.L. 108-106.

On-going SIGIR audits and reports in which USAID currently participates include: SIGIR's review of USG roles and responsibilities under IRRF; audit of the Basrah Children's Hospital Project; review of the definitization of contracts supporting reconstruction in Iraq; review of close-out processes and procedures for IRRF contracts; review of infrastructure protection; and the SIGIR survey of the U.S. Embassy Baghdad's anticorruption program.

Additionally, USAID regularly provides information to SIGIR for input to its quarterly reports to Congress and responds to any number of ad-hoc SIGIR data calls, including a data call related to education, migration, human rights and governance.

To date, only two of the completed SIGIR audits have resulted in recommendations for USAID:

1. In the audit report on methodologies for reporting cost-to-complete estimates, SIGIR recommended that USAID develop internal guidance for estimating and reporting cost-to-complete information for IRRF-funded activities and seek to coordinate with IRMO, to develop a mutually agreeable methodology for calculating cost-to-complete estimates.

USAID is working to develop, in coordination with IRMO, guidance for calculating and reporting cost-to-complete estimates for USAID IRRF-funded projects.

2. In the SIGIR audit concerning USAID's management of the transfer of IRRF projects to the Iraqi Government, SIGIR recommended that USAID, in co-

ordination with IRMO, complete the development of a common policy and process facilitating the transfer of completed project assets to the GOI.

USAID firmly believes that the USG must ensure that its IRRF investments in Iraq are formally accounted, operated, and sustained by the GOI. To this end, USAID participated in an IRMO-led interagency process to develop uniform procedures for the formal transfer and recognition of USG-funded capital assets to the Iraqi Government. Procedures were being developed at the time the SIGIR audit was issued.

The procedures entail a three step process: 1) each participating USG executing agency develops and implements a project that produces or improves a capital asset in accordance with its own rules, policies and procedures; 2) upon completion, again using its own policies and procedures, each executing agency hands over control of capital assets to the responsible GOI line ministry (e.g., Ministry of Electricity) for its beneficial use, operation, management, control, and protection; and 3) in coordination with IRMO, each executing agency or department formally transfers the capital assets to the GOI, as represented by the Ministry of Finance and the relevant line ministry.

USAID endorses and utilizes steps 1 and 2 of the above-referenced procedures and has carried out these steps with the majority of our major infrastructure projects. Now that the new government is in place, USAID is working to finalize the parameters of step 3.

In conclusion, I want to assure you that USAID is taking every measure it can to ensure that U.S. government resources are used effectively and transparently. The successes that have been achieved to date in Iraq are the tangible results of these efforts. I believe with Congress' continued support, USAID will be able to make further strides in helping to achieve success in Iraq.

Mr. Chairman, thank you for offering me this opportunity to discuss USAID's role in Iraq with your Committee. I am prepared to answer any questions that the committee has. Thank you.

Chairman HYDE. Thank you, Mr. Kunder.

We now will recognize Members for 5 minutes to interrogate the witnesses, and we start with Mr. Lantos.

Mr. LANTOS. Thank you very much, Mr. Chairman.

Let me take a moment to comment on Mr. Kunder's last statement. I fully stand by my statement of waste, fraud and abuse. Your addition that it is my view that the majority of the problems in Iraq are related to waste, fraud and abuse is a statement I never made, and I reject and resent your creating statements which I never made.

Waste, fraud and abuse characterize much of the program. The bulk of the problem in Iraq is security, and everybody understands that, so don't be sensitive when some of us use phrases you don't like. There has been an enormous amount of waste, fraud and abuse, and if you don't believe it read Mr. Bowen's reports.

I commend him for his reports. They provide chapter and verse for waste, fraud and abuse. So much for that.

Chairman HYDE. Mr. Smith?

Mr. LANTOS. I have just begun, Mr. Chairman.

Chairman HYDE. I am sorry. I should have known better. Go ahead.

Mr. LANTOS. I want to raise a generic issue and a very important one. It is self-evident that at the beginning of the Iraq enterprise there was a great deal of disagreement both in this country and with many countries overseas, but there is at least articulated unanimity on the part of all of Iraq's neighbors, and I particularly refer to the oil rich Arab countries, that reconstruction is wanted and desired by all of these countries.

Many of them have made significant pledges in Madrid and elsewhere. What I am looking for now, gentlemen, is specificity, not

general statements. In the light of obscene oil profits running into tens of billions of dollars with the explosion of petroleum prices, have these countries met their initial obligations, let alone additional commitments, to participate in the reconstruction of Iraq?

Mr. Jeffrey?

Mr. JEFFREY. No, sir, they have not.

Mr. LANTOS. What efforts has the State Department made to ensure that these rich Arab countries which are now benefitting from windfall profits of obscene proportions, with gasoline in my State of California approaching \$4 a gallon, that they meet at least the puny initial commitments they have made to reconstructing Iraq?

By the way, our Ambassador to Saudi Arabia was in my office a few days ago, and he was stunned when I asked him what are you doing to see to it that Saudi Arabia participates in this effort, in the effort to help the people of Darfur. This was a brand new idea for him.

I was so appalled by his lack of understanding of the issues an American Ambassador needs to deal with. What are our Ambassadors instructed to do in the oil rich Arab countries to see to it that they live up to their commitments and obligations?

Mr. JEFFREY. Sir, let me answer that. We have very significant pledges. They are very large even by the standards of these countries. Saudi Arabia, for example, half a billion dollars in—

Mr. LANTOS. Well, what is the value of their windfall profit just in the past year?

Mr. JEFFREY. It is in the tens of billions of dollars.

Mr. LANTOS. It is in the tens of billions, so half a billion dollars is not that impressive, but be that as it may.

Mr. JEFFREY. And another half a billion dollars in loans. In addition, other countries—Kuwait, half a billion. Kuwait has disbursed some of its monies, I am happy to say. UAE, \$200 million.

In addition, these countries collectively, particularly Saudi Arabia, hold between \$30 and \$40 billion in Iraqi debt. We are urging them to follow the lead of the Paris Club and to forgive 80 to 100 percent of that debt.

In terms of what we have done, and, Mr. Lantos, I am always concerned about giving you inputs because what you are interested in is outputs, and I have basically said that there have been little outputs up until now, and I will try to explain perhaps why, but in terms of inputs by the Administration there have been a great many.

I traveled for 10 days through the region in October. This was followed up by the Secretary, who met with the GCC Foreign Ministers in November in Bahrain. The President communicated with the leaders of these countries on this very subject. All of this was directed toward supporting the new Iraq.

Mr. Zeloko, the Consulate, was out, as were Treasury officials, in January, and we are also, as I mentioned in my written comments, looking at the possibility of an international compact with the UN and other international organizations participating with us, the Iraqis and countries in the region to get them to move forward.

Now, you are absolutely right that they understand, and they do, that reconstruction in Iraq and stability in Iraq is absolutely crit-

ical. They also understand that they are the beneficiaries of large windfall profits.

Why haven't they moved? I believe—I cannot verify, but I believe—that one of the reasons is that these countries want to see whether a stable political democratic system can be established in Iraq that will include the Sunni Arabs, as well as the Shi'a Arabs and the Kurds who, of course, we had in the prior government.

We have attained that at this time, so therefore I can give you no further reason why they wouldn't move forward. I do have to say in their defense that in terms of political outreach to Sunni Arabs and to some of the Shi'a Arabs and to the Kurds they have been extremely aggressive.

Zal Khalilzad has traveled to most of the Arab capitals of the region repeatedly in this regard, and they have been very, very supportive behind the scenes in bringing together this government. Now, however, we have to see cashflow, sir.

Mr. LANTOS. Do you have any comment, Mr. Bowen?

Mr. BOWEN. Yes. On page 93 of our April quarterly report there is a chart that details every donor nation's commitment both at the Madrid Conference and subsequent. It shows that \$13.5 billion was pledged at Madrid and since then another \$1 billion, so \$14.5 billion roughly is the amount of non-United States donor nation commitments.

Mr. LANTOS. And how much of that has been actually received?

Mr. BOWEN. A little over \$3 billion of the Madrid donor funds and not very much progress in the past year. Japan and Korea have stepped forward, Japan most notably within the mix of those who have actually moved beyond the pledge stage. Ambassador Jeffrey is exactly right that those commitments have yet to truly ripen.

Mr. LANTOS. Well, I think this is absolutely outrageous. If the American taxpayer would know that Arab countries which are getting tens of billions of dollars in windfall oil profits are not meeting their puny obligations to participate in the reconstruction of their fellow Arab nation of Iraq they would be outraged by this.

I very much hope, Mr. Ambassador, you take this message back to the Secretary, who is very able and effective and I am quite sure shares my view on this subject.

Thank you, Mr. Chairman.

Chairman HYDE. Mr. Smith of New Jersey?

Mr. SMITH OF NEW JERSEY. Thank you very much, Mr. Chairman, and thank you to our very distinguished panel.

Let me just ask Ambassador Jeffrey first. Last year's Conference Report for the Science, State, Justice and Commerce and Related Agencies Appropriations Act stated that the conferees expect that within the planned personnel complement for Baghdad in Iraq one senior Foreign Service official who reports directly to the Ambassador will be assigned as the lead as the human rights official in Baghdad.

I wonder if you can tell us if that person has been named? Are they working at that job? Is their portfolio, whoever it might be, primarily or hopefully exclusively the human rights portfolio?

Secondly and related to that, the U.S. Commission on International Religious Freedom and other groups have expressed grave

concern that human rights guarantees in the new Iraqi constitution remain ambiguous, and there are a number of pieces of legislation I understand that are being drafted. Some put it at as many as 55 to 80 pieces of legislation. What is your take on whether or not religious freedom especially will be secured in Iraq?

Finally, on the sustainability issue of infrastructure, my understanding is that the Special Inspector General's number is between \$650 million to \$950 million annually to operate and maintain U.S.-sponsored infrastructure projects as they are handed over to the Iraqi Government.

The 2006 supplemental and 2007 budget contain \$355 million and \$154 million for sustainability aid, and I am wondering in the intermediate and long term, what it looks like.

I know you just mentioned the Madrid Conference and donors. Whether or not that money will come in does remain an open question, but sustainability obviously has to be uppermost or very high, I should say, on many of our minds.

Mr. JEFFREY. The political counselor, Ambassador Margaret Scobie, who just got there, is overall responsible for our human rights programs. She has several officers in the Political Section who have primary or secondary responsibility for human rights. It is an important part of our portfolio.

We do several reports a year that we bring to you, the trafficking and peoples report, human rights report and a special human rights implementation report. We are also deeply involved with many of the NGOs, IFIS and others, and of course we have major democracy programs.

In terms of the constitution, sir, we think that by the standards of the region, in fact by international standards, the constitution does protect liberties, including religious freedom. It states that people do have the right to choose between, for example, Shari'a courts or civil courts.

It gives people a great deal of freedom to worship regardless of whether they are Christian, Jewish or Shi'a or Sunni Muslim, and there are a wide variety, there is a wide pluralism of our groups there. I think it stands in comparison well to many other areas.

What you said is correct. There will be a large number of implementing laws, and those have to be watched carefully by Iraqi NGOs, many of whom are concerned, supported by the international community to ensure that the constitutional rights that have been secured in the constitution are in fact carried out in practice. I am amazed at how well they do in the middle of a war zone, but still this is very important to all of us.

In terms of the \$650 million to \$950 million a year, that basically is not very different from our own estimates. This is why we put in almost \$300 million for—we have done several things. First of all, in our contracts themselves over the past year or so based upon Mr. Bowen's investigations and others we have built in certain requirements for preparing the way to train Iraqis and to have a transition plan.

In addition, we have put in ourselves in our request for 2006 and 2007 respectively approximately \$300 million and then \$150 million to basically have a glide path toward Iraqi support. As you pointed out, the Iraqis are also earning \$50 to \$60 a barrel on their

oil. They are doing quite well with the support of the money that you have given us in the oil sector in exporting.

We think that they will have a good number of billions of dollars for capital budget purposes, including the maintenance of not only our infrastructure, but theirs, in the years ahead, particularly if we can get the security situation better under control. Even under the current situation, they have got \$6 billion for capital purposes, be it new investment or maintaining the investment they have, sir.

Chairman HYDE. Thank you. We have a vote on the Floor. It is one vote. It is a procedural vote on the rule. I don't think I will go over for the vote. I will stay here.

Does somebody want to ask a question? Mr. Ackerman is next.

Mr. ACKERMAN. Thank you, Mr. Chairman.

I want to just echo Mr. Lantos' sentiments about the participation of the international community. Mr. Bowen, you had stated in your remarks that reconstruction officials should begin now to engage other international donors. I don't know why we really haven't done that a long time ago, why we should begin now.

It seems that their participation is woefully, embarrassingly and disastrously inadequate, a little over \$3 billion, while the whole rest of the world, especially the Gulf States and the Arab and Muslim worlds, not participating in reconstruction is something that is beyond my understanding, or maybe they just think that it is a bad investment.

Our participation as I understand it, we have appropriated \$21 billion, and we have obligated already over \$19 billion, and we have actually spent \$14.6 billion as of May 23 of this year.

If we were to approach this as an appraiser or an insurer looking to ensure property or determine its value and we went over there and looked at the stuff that we have reconstructed, what would be the value of that in dollars?

Mr. BOWEN. Mr. Ackerman, we are looking at exactly that issue in the course of our audits. I can't give you a precise figure now, but it is a valid question, and it actually cuts right to the core of what our mission is to assess what we have gotten for our investment or taxpayer dollars in Iraq reconstruction.

Mr. ACKERMAN. So we don't know right now what we have gotten for our \$14 billion spent?

Mr. BOWEN. I can catalog for you a whole variety of projects that we have received, but you are asking for a summary number, and that work continues.

Mr. ACKERMAN. When do you think that you might have a rough idea?

Mr. BOWEN. Well, we are in what I call the fourth quarter of reconstruction with respect to the U.S. led part of the program. Thus, we are in the middle of the year of transition. As we said in January, 2006 is the year of transition, contract closeout.

Indeed, certain large contractors are beginning to shut down. KBR will be gone by August. Parsons is closing down. They will be gone this summer. As those large design/build contractors close up shop and begin the process of closing out their contracts, we can better account and get exactly to the question you are asking, and I plan on doing that, giving you a list of here is what the oil sector spent. Here is what we got in toto from that sector.

If you go to Section 2 of this report, the April report, you will see a current cataloging of what the U.S. has obtained to date and what it will obtain in the course of this year.

Mr. ACKERMAN. How much of what we have built got blown up?

Mr. BOWEN. That is also difficult to catalog, but it has hindered. It is part of the security problem.

Mr. ACKERMAN. Are you able to quantify it in any way?

Mr. BOWEN. We don't have a quantifiable analysis of attacks versus what we have built and what got blown up.

Mr. ACKERMAN. Is there a line anywhere that says we have to rebuild so and so that we already paid for?

Mr. BOWEN. That is a different question. When you are engaging in a design/build cost plus contract you continue to push forward. Certainly certain projects have been attacked. That has delayed those projects and required more investment into them.

Mr. ACKERMAN. How much reconstruction money has actually gone for security?

Mr. BOWEN. There are two ways to look at the security question, direct and indirect costs. The direct costs are the amount of money that has had to be invested in bolstering the Iraqi security forces. In 2004 there was a substantial reprogram, actually three—

Mr. ACKERMAN. That is out of reconstruction money?

Mr. BOWEN. It moved reconstruction money, yes, IRRF dollars and other dollars. That is what the ISSF did last May.

Mr. ACKERMAN. This is still showing up as reconstruction and not part of the war effort?

Mr. BOWEN. That is correct. It is part of the relief effort.

Mr. ACKERMAN. So the war effort is actually costing more than it would appear at first glance, and reconstruction is actually receiving less dollars?

Mr. BOWEN. Yes, that is true.

Mr. ACKERMAN. Do you have any idea how much? Is that half?

Mr. BOWEN. I don't know what half means, but what I can tell you is—

Mr. ACKERMAN. About 50 percent.

Mr. BOWEN. No, not half of the reconstruction money. I mean, I don't know if half of the reconstruction or half of the war effort. No.

Mr. ACKERMAN. Half of the reconstruction money.

Mr. BOWEN. It is neither of those. It is \$5.8 billion that has been reallocated not just for security, but for democracy and governance.

Mr. ACKERMAN. So \$5.8 billion out of \$19 billion is about 30 percent?

Mr. BOWEN. And the \$5 billion was in the ISSF last May. It was put into MNSTC-I, Multi-National Security Transition Command Iraq, to train.

Mr. ACKERMAN. How much was?

Mr. BOWEN. \$5 billion.

Mr. ACKERMAN. \$5 billion?

Mr. BOWEN. Last May's additional supplemental.

Mr. ACKERMAN. An additional \$5 billion more out of the \$19? That is \$5 billion out of the \$19 besides the \$6? That is \$11 out of the \$19?

Mr. BOWEN. No. No. That is on top of the Iraq Relief and Reconstruction Fund. It is not part of the IRRF allocation. That was a military allocation.

Mr. ACKERMAN. What percentage of the money for reconstruction has gone into no-bid contracts?

Mr. BOWEN. A very small percentage. The time for no-bid contracting or limited contracting occurred prior to the war or in the spring and the summer of 2003. Since then over 90 percent—probably 99 percent—of the contracting has been competitive.

Mr. ACKERMAN. How many contractors in dollar amounts? How many contractors have folded, gone bankrupt, left town, were not able to complete their projects, had to be replaced or couldn't do the job?

Mr. BOWEN. I don't know any that have gone bankrupt or had to fold because of financial difficulty. There have been contractors that have failed to complete their job, most notably Parsons in the primary healthcare clinic contract which has been detailed in this latest report by SIGIR.

Mr. ACKERMAN. I will yield back my time if I have any and wait until later.

Chairman HYDE. Thanks.

Ms. Ros-Lehtinen?

Ms. ROS-LEHTINEN. Thank you, Mr. Chairman. I thank the panelists for their testimony.

I wanted to ask about the funding and the training for the Iraqi police. Can you elaborate on the training that the Iraqi police are receiving? How much are we spending on this training, and will we oppose the inclusion in the security forces of anyone actively involved in militias or other armed groups outside of the state's monopoly on force? What criteria have been established for the recruitment of Iraqi police and security personnel?

Also, when providing training and technical assistance to the Iraqi police force or other official security organizations, what safeguards are in place to ensure that the materials and the knowledge provided to them are not disseminated to Islamic jihadists or to militant organizations that are openly engaged in criminal activities or sectarian violence?

Thank you.

Mr. JEFFREY. Certainly. I will take that. Congresswoman, of the approximately \$10 billion of U.S. funds inside of the IRRF program and in the DoD supplemental in 2005 that have gone to security forces, a little less than 50 percent have gone to the police. These include major programs by our State Department Bureau of International Narcotics and Law Enforcement to train the police.

They have a police academy in Jordan. They have various police academies around Iraq to give people a roughly 8-week training program. The Jordanian one has a large number of trainers from many other countries as well, we are happy to say.

In addition, we do a great deal of specialized training of police and forensics and special weapons and tactics and this kind of thing, so a great deal of the effort in our security field has gone into the police.

In terms of the training, the training includes a great deal of classic police work, some human rights training, but frankly a

great deal of tactical survival skills because these police are out on checkpoints. They are doing essentially a combat function.

As you know, in America people often get degrees in law enforcement, and then they spend a year or 2 in training before they are put out on the street. We do not have that option with Iraq because the police force we had to create almost anew.

What we have done is put teams, including some 500 State Department INL civilian police personnel, in there, many of whom I am afraid have died in the line of duty, and the United States military for the past 6–9 months has begun putting special police advisory teams like they have with the regular army, the Iraqi army, into the Iraqi police units as well.

Ms. ROS-LEHTINEN. Thank you. Just because I know the time will be up, how about the exclusion of certain folks from serving?

Mr. JEFFREY. There is a very extensive vetting process. I cannot assure you, however, how effective that vetting process is in the police. In the army we are very confident. In the police, because much of the recruiting is done locally in the command and control of the police is local at the provincial level, we don't have as good eyes on, and neither we nor the Iraqi Central Government have the same control over the leaders. Like everything else, leaders are so important.

Ms. ROS-LEHTINEN. Thank you, Mr. Chairman.

Chairman HYDE. Mr. Schiff of California?

Mr. SCHIFF. Thank you, Mr. Chairman. I will be brief because I want to try to get over in time to vote. I would like to ask a question I had asked of our last panel that came to discuss Iraq and see if the response is any different here today.

I know that some minor level players that have committed just sort of outright graft have been arrested, but on the broader level we are talking about the lack of accountability for billions of dollars of funds which, whether they are Iraqi oil funds or United States funds, they are still held in our trust.

Who has been held accountable for all of the failures that have been so graphically illuminated by your Inspector General report? Who has been held accountable for the significant lapses in reconstruction?

Mr. BOWEN. Well, first of all two significant cases came to conclusion during this last quarter. Robert Stein, who was a comptroller in the South Central Region of CPA during 2003 and 2004, and a contractor with whom he engaged in a criminal scheme both were sentenced to 30 to 40 years in prison and ordered to pay back restitution of over \$6 million each.

There are two other cases that I can't go into detail about here that are at the Department of Justice moving forward in the prosecutorial phase.

Now to address your big question about we have heard about the \$9 billion talked about today, first let me say that that audit addressed a phase during CPA of how the development fund for Iraq money was transferred from CPA to the interim Iraqi Government, actually the government in counsel at that point, for the funding of the incipient new Iraqi governing authorities.

Our concern was that there was no sufficient mechanism in place to give feedback to CPA, which, as you said, had stewardship of

that money so that some assessment could be made of how that money was used. It was a chaotic environment, and therefore more, not fewer, controls were necessary in SIGIR's view.

A private accounting firm did some looking into how that money was used on the Iraqi side of the ledger, and it was——

Mr. SCHIFF. But again, Mr. Bowen——

Mr. BOWEN. Yes?

Mr. SCHIFF [continuing]. My question is about accountability.

Mr. BOWEN. Yes. I guess the abuse of that money or the fraudulent disposition of it involved Iraqis over which the Commission on Public Integrity has charge.

We have been supporting them in their efforts. They have 960 cases ongoing regarding fraud within the Iraqi Government and convicted a senior director general last week of fraud.

Mr. SCHIFF. So is your response then that the people that have been held accountable for the massive lapses in terms of billions of dollars and the reconstruction efforts that have begun, but not finished, are Iraqis; that we have held no one accountable who was actually responsible for the trust of those funds or the management of those funds or the oversight?

I thought the CPA was running the show. I thought we were running the reconstruction effort and working with Iraqis, but no one other than the Iraqis and a handful of small grafters compared to the billions that are missing have been held accountable?

Mr. BOWEN. We have jurisdiction over prosecuting Americans who commit crimes in Iraq.

Mr. SCHIFF. I am not talking about necessarily prosecutable criminal offenses. I am talking about we have invested tens of billions of dollars in Iraq reconstruction. We have very little to show for it.

We have very little accounting of even how big chunks of money have been spent in terms of the Iraqi oil funds. That is our responsibility. I don't see anyone who has been held accountable for that.

Mr. BOWEN. Well, we are in the midst of a significant lessons learned program that is looking at how the program during CPA unfolded and thereafter.

Mr. SCHIFF. Can I make one point because my time is running out?

Mr. BOWEN. Yes.

Mr. SCHIFF. I think one of the lessons learned here may not be enumerated in your report, but it is true with respect to the reconstruction. It is true with respect to the prosecution of the war effort. Where there has been inadequate oversight and where there has been a lack of accountability there is a commensurate decline in public confidence in the entire effort.

When people don't see the oversight and they don't see the accountability, they seriously question whether we know what we are doing. That, I think, is an important lesson learned.

I really hope that this is not a hearing, just a shot in the dark. I hope it is a part of a continuing process because this body and the Administration have the responsibility for the oversight and the accountability.

Let me ask you one other—well, I am out of time.

Chairman HYDE. Go ahead.

Mr. SCHIFF. The last question I wanted to ask is there have been reports, Mr. Bowen, that the Pentagon has been unhappy with your reports; that they consider you mettlesome.

Are you getting any push back? Are you finding any resistance at the Pentagon to the work you are doing that we need to know about because we support the work you do, and we don't want there to be any impediment.

Mr. BOWEN. No. No, I haven't. When I met with Secretary England, the Deputy Secretary of Defense, a month ago I raised this issue with him because of those anonymous reports in the press. He disassociated himself with those entirely and said that he completely supported SIGIR's efforts, and the Secretary of Defense did as well.

Mr. SCHIFF. Thank you, Mr. Chairman.

Chairman HYDE. Mr. Rohrabacher?

Mr. ROHRABACHER. Yes. I would like to commend Mr. Schiff before he leaves the room, that is, number one for the tone of his opening statement, as well as the tone and substance of his session just a few months ago and his approach to the questioning. I believe Mr. Schiff demonstrated again a much more responsible posturing than I have seen of other of his colleagues from the other side of the aisle.

Let me also identify myself, Mr. Chairman, with remarks of Mr. Lantos. I hope that you take those very seriously when he said that you should go back and make sure that this Administration understands that we expect this Administration to enlist more financial support from our allies, especially the moderate Muslim allies that we have, which are now involved in a windfall of profit from the expansion of oil prices. They should be helping out more in the cost of reconstruction of Iraq.

They cannot expect the American people to bear this burden alone. We should have more support from the Saudis and the people from Qatar and Kuwait and others, other countries that are now flush with cash. That is a message that I hope you will take back and take very seriously, and that is certainly a bipartisan message to you today.

Let me note that in the very beginning of this conflict there was a decision that had to be made as to how it would be paid for. The Administration decided that instead of presenting the Iraqis with a bill that we would instead take this burden upon the American people. I think that was a horrible mistake in the beginning.

Again, if the American people did not feel that they were carrying an unfair share of burden of this conflict, I think there would be more support of the long-term commitment that is necessary to win such a conflict that we are in.

Instead, the Administration chose again to consider the economics of international interest and other countries' interest other than the interest of the American taxpayer. At a time when again the price of oil has gone up and the value of the oil that Iraq sits on top of has so dramatically increased, the Iraqi people should be expected.

We could have coupled a policy forgiving the debt from Saddam Hussein, which should have been forgiven and should have been wiped off the books because the people of Iraq, that was a dictator-

ship. They shouldn't have to bear that burden. We should have combined that, wiping away that debt, which would have hurt who, the German and French banks, maybe the Russian banks, and then coupled that with letting the Iraqi oil revenues pay for this war, which would have been right now much more palatable to the American people.

I want to thank you for being here today. As I say, already we have heard from Mr. Bowen about the nature of that \$9 billion which has been over and over and over again talked about as if it was American money. It was not.

Yes, we should not be in any way complacent about a lack of accounting for even that \$9 billion, but let us note that in a barrage of propaganda which has undercut our war effort we have just heard over and over again as if that was a \$9 billion hunk of corruption that cost the American taxpayers \$9 billion.

Again, not to say that there shouldn't be an accounting of that money just like we shouldn't expect there shouldn't be an accounting of all the money in the Oil-for-Food scandal which also had a lot to do with the regime in Baghdad.

Finally, let me note that from my experience, and I don't know if any of you served in Vietnam or any of the other conflicts that we have been in. I know that when I was there for a short period of time in a non-military position I noted the corruption there. My father noted the corruption in Korea and in World War II.

The corruption itself and profiteering does not negate the moral basis of conflict. Usually these things, Mr. Chairman, are brought up after the conflict is over because it tends to dishearten the public when they are losing their children's lives.

Do you think that there is any more profiteering or corruption going on proportionately than there has been in any other conflict the United States has been involved in, and have you seen, Mr. Bowen, corruption and profiteering at any large scale by American companies during this conflict? That is my question.

Mr. BOWEN. I don't have any data to give you the comparative analysis you have asked for, but what I can say is that fraud and corrupt practices are not a pervasive component of the current Iraq reconstruction enterprise.

There were clearly egregious acts by those who took advantage of a chaotic situation particularly during CPA. My job is to track them down, hold them accountable and ensure they are prosecuted and sent to prison. I am committed to doing that.

We have about 80 cases ongoing right now. Seventy-five percent of them, three-quarters of them, have to do with conduct that primarily occurred during the early phases of the reconstruction program when there was a lack of oversight.

Mr. ROHRABACHER. During a time of total chaos?

Mr. BOWEN. That is correct. Well, an incipient and growing insurgency whose lethality came to be known quickly after November 2003 in the attack on the UN.

I will say that the Chairman was right in saying that aggressive oversight makes a difference. I don't think it is an accident that there is perhaps a coordination between the time that SIGIR really stood up a significant oversight effort and the drop in wrongful conduct.

Mr. JEFFREY. If I could just add, there is a great deal of corruption in Iraqi Government institutions and in the private sector. This hurts the Iraqis, sir, and it hurts us.

I can tell you that 33 years ago when I was in Vietnam there was a great deal of corruption there. It did not stop the war effort. It did not stop the South Vietnamese from standing up an armed force that in the end did defeat the Viet Cong insurgency, stop the North Vietnamese in 1972 and under slightly different circumstances would have stopped it again in 1975.

At that time, throughout east and southeast Asia in countries very similar to South Vietnam there were massive levels of corruption. Since then they have become known as the Little Tigers of Asia with booming economies, very, very broad democratic rights and civil liberties, and our efforts to support them are a proud chapter in our history.

Mr. ROHRBACHER. And the corruption in Korea was overwhelming as well.

Mr. KUNDER. Sir, just one brief comment. Buried in what might not otherwise indicate any effort to battle corruption, when we are asking for some funding in the supplemental for 2006 and 2007 to build national capacity, kind of an anodyne term, but this is the kind of issue we are trying to look at is building up Inspectors General within the Iraqi ministries, building up accounting systems within the Iraqi ministries.

That is critical both because that is something we can leave behind that will protect the American investment, but to Mr. Ackerman's point when he was asking for the kind of analysis as to what is our investment worth today, we are investing both in hardware and software in Iraq. Some of the best investments we can make are these anti-corruption efforts, these Inspectors General to leave behind a more democratic participatory government.

Thank you.

Chairman HYDE. Before we get to Mr. Delahunt, do you want to ask questions, Ms. Lee? Okay. All right.

Mr. Tancredo, let us recognize you because you haven't spoken yet. Mr. Tancredo.

Mr. TANCREDO. Thank you, Mr. Chairman. I will be very brief.

I have one question only, and that is in the constitution, in the new Iraqi constitution, what structure, if any, has been established for an actual tax system to take shape rather than a reliance solely on oil revenues for every conceivable expenditure of the government?

Mr. JEFFREY. I will take that one, sir. After considerable searching, I did find enough bits and pieces in the constitution to justify if I were asked—of course, this is an Iraqi decision—that the Central Government does have a taxing authority.

It is in negative terms saying laws for taxes would have to have such and such, but we drew back from that the argument that the Central Government does have tax authority, and certainly there are also authorities for taxing at the regional level as well, but this is an important point, and it is one that the Iraqis are going to have to tackle along with many other things as they move out with the constitution because they cannot support their entire economy and particularly these huge subsidies with oil revenues.

They need to get rid of the subsidies, and the IMF is telling them that. They need to develop a better basis to fund their transfer payments and their own bureaucracy than the oil revenue, which we would think should go either to the people or to capital projects to improve the economy as a whole.

Mr. TANCREDO. And what you found to be a reference to their ability to do so, is there any actual outline of the structure of that kind of tax system?

Mr. JEFFREY. We have worked with them, particularly the banking sector and the Ministry of Finance, on ways that they could have funds transfers and controls and such.

What we have seen, and we have a lot of experience in the payment of the military, the Iraqi military, which is of course very important to us, that the absence of electronic funds transfers, the absence of the kind of financial systems that we take for granted here in the United States with mortgages, insurance companies and all of this, throughout much of Iraq makes it very difficult to move immediately into a tax system. It is very difficult beyond the most basic sales tax to evaluate how much income people have and that kind of thing.

They are working on that. We have a variety of projects to help them on electronic funds transfer, fiber optics, so that they can communicate funding information and other information for their ministries, and over time they will develop that capability.

Mr. TANCREDO. But right now there is not even a sales tax. Is that correct?

Mr. JEFFREY. There are a few taxes at the provincial level, and they gain I think 5 percent of their government income is non-oil. Some of that is tariffs and import payments, I suspect the bulk of it, but there are slight tax earnings.

Mr. TANCREDO. Thank you, and thank you, Mr. Chairman.

Chairman HYDE. Ms. Lee?

Ms. LEE. Thank you, Mr. Chairman.

Let me ask a couple questions. First of all, I believe that the American taxpayer believes that it is our duty and responsibility to help fix what we destroy, to help reconstruct what we have bombed and to help the Iraqi people move on with their lives.

I don't believe, however, that the American taxpayer wants us to redevelop the entire country when we have infrastructure problems here at home we need to repair, schools that are dilapidated, a healthcare system, 44 million with no health insurance. Where does reconstruction of what we destroyed end and development or redevelopment of the entire country begin?

Secondly, with regard to the security contracts we have general knowledge or believe that most of the security contracts or the security forces now or a large number of them are privatized. I wanted to find out what the percentage is of private security forces versus our young men and women in terms of providing for security.

What type of contracts are these? Are they no-bid contracts, or are they competitive bid contracts for the security contracts? Just in general, could you list those contracts?

Finally, Mr. Bowen, maybe you could answer or respond to something that you said with regard to it being time now to

multilateralize the whole effort of reconstruction because initially we all remember that the Administration said for those countries that did not support us in the war and in the bombing and invasion they shouldn't participate really in the contracts and in the reconstruction efforts.

Where are we now with regard to that policy of bringing in countries that didn't support us, companies from those countries, to help with the reconstruction efforts?

Mr. JEFFREY. Sure. Particularly on the third one I think I may have some help from Mr. Kunder and Mr. Bowen.

On developing the whole country, our reconstruction program that we did jointly with the Congress, the IRRF I and the IRRF II, was not designed just to fix what we had bombed. In fact, we destroyed very little of the infrastructure in 2003. We deliberately didn't target the infrastructure.

There was some damage still from 1990–1991 when we liberated Kuwait and had the 6-week bombing campaign. That was one of the contributors, along with Saddam's various laws and 30 years of mismanagement to a totally dilapidated infrastructure that we discovered when we came into the country.

At the same time, whatever was left of that infrastructure was largely looted and trashed by Iraqis who were angry at their government or were frankly trying to find copper or other things to earn a living. That was the situation that we had when we found ourselves in Iraq in April and May 2003.

Our goal was never to reconstruct the country, and I want to emphasize that as I have in my written comments. The World Bank estimates that would take approximately \$55 billion or more.

In our IRRF I and our IRRF II, because we had many other purposes for the IRRF—even though we call the whole thing reconstruction, there is \$5 billion for the security forces, there are billions of dollars for democracy and rule of law programs which, as Mr. Kunder said, are soft programs.

Probably there is about \$10–\$12 billion of actual brick and mortar reconstruction in that money, Congresswoman Lee. Therefore, that would only be a small percent of the \$55 billion that Iraq needed per the World Bank.

Now, where would that come from? Well, you hit the nail on the head. The Iraqis themselves, as I mentioned earlier, the Iraqis have in this year's budget \$6 billion for capital projects so they are going to have to start spending it themselves, but also the international community, \$13.5 now, as Mr. Bowen said, with another almost \$1 billion.

About \$14.5 billion for reconstruction is a fairly significant amount; not as much as we have put in and not as much as the Iraqis need, but if that money starts flowing, and we discussed this earlier why it hasn't flowed at least from the Middle East, then we will see a substantial plus up of Iraqi infrastructure capabilities.

In terms of the security forces, first of all let me be clear that both the United States Government, the civilian side of it such as the State Department and USAID, and American contractors in Iraq use civilian what are called PSDs, personnel security details, for their close-in security. We also rely, of course, on the United States military for general area security and the Iraqis.

These PSDs, for example, we have associated with the Embassy about 3,000 plus personnel either to secure our installations or to in particular accompany us when we are traveling in dangerous areas. These people are highly professional.

I review every single incident and have been for the last 2 years where they fire a weapon or are engaged in an action, which they often are. They are very, very professional. They are very careful. They have very tight rules of engagement, but they are also very effective.

They are competitively bid. We know this because sometimes the team that you have out with you, that have saved your life twice, suddenly disappears because they lost the contract, but so far we haven't suffered any major consequences from that.

On the last one I will turn to your—

Ms. LEE. Mr. Bowen had mentioned it was time now to multilateralize the effort.

Mr. BOWEN. Exactly right. The reconstruction program is really in three phases. The first phase is United States-led and, as Ambassador Jeffrey said, it was really to get the Iraqis started on what is going to be a long relief and reconstruction process. That is a \$30 billion first phase in grants, which, as you know, fundamentally are market distorting. They don't promote market development, which this next phase should.

The next phase is going to be multilateralized. Most of this \$14 billion is loans, not direct grants that the United States engaged in. Indeed, I think that is appropriate. Iraq needs to come out of the phase of debt forgiveness and free money, so to speak, and into the phase of operating in a real economy if they are going to be a free market democracy.

The third phase is going to be the long phase—the second phase should be relatively short—and that is an Iraqi funded, Iraqi driven, Iraqi led relief and recovery process.

Ms. LEE. Mr. Chairman, may I have just an additional 30 seconds, please?

With regard to the countries that did not support the United States in the war effort, are these efforts now and their companies part of this new multilateralization of the reconstruction process?

Mr. BOWEN. That, I believe, is true.

Mr. JEFFREY. Some of them are, but there are two different issues here. The first issue, which was very active in 2003, was would these countries get the major contracts that we were giving out with our IRRF monies. There was a lot of back and forth.

We are way beyond that, Congresswoman Lee, partially because these companies in many cases didn't have the ability to mobilize and particularly go into a war zone. Thus, we relied first on United States companies, some of them these famous initial contracts then cost plus, but then increasingly we decided that we would start contracting directly with the Iraqis; that that got the best bang for the buck, and it also helped them develop their capacity. I think we are pretty much beyond that discussion.

Ms. LEE. Thank you, Mr. Chairman.

Chairman HYDE. I am going to turn the chair over to Ms. Ros-Lehtinen to finish the hearing. The three of you have been superb, and I congratulate you.

I just want to make a couple of statements. I think one thing, you three are non-political. You are professionals. You don't have an axe to grind. You are not working for one candidate for President or another one. You are professionals calling them as you see them in a very tough job, and you should have credibility. You have it with me. What you say carries a lot of weight.

A statement was made by one of my friends on the opposite side that we invested a lot of money in Iraq and have nothing to show for it. I will tell you what you have to show for it. Three elections. Three elections. How many would stand out in the broiling sun and risk assassination just to vote? They do it, and they have done it three times. That is something heroic. That is something to show for our efforts over there.

There is a tidal wave—I was going to say a tsunami, but I don't want to get too PC—of negativity in all of these discussions, and I have watched it debilitate or deteriorate from the opening guns so to speak until where we are now, calling the President a liar, saying he motivated us to get into a war overseas because Halliburton needed a contract. It is just negative, negative, negative, negative, and the aroma of politics suffuses all of these discussions.

In any event, there is nothing more important right now. It is life and death. I think the contractors and civilian employees deserve equal credit because they are in a very dangerous position, and they are over there voluntarily, so I salute them, I salute you, and most happily I turn the chair over to Ms. Ros-Lehtinen.

Ms. ROS-LEHTINEN [presiding]. Thank you, Mr Chairman.

Mr. Burton is recognized for his questions.

Mr. BURTON. Thank you very much. You know, I have been proud of Mr. Hyde, Chairman Hyde, for a lot of reasons, one of which was he held George Mikan, I was just reminded, to one point when he was playing basketball for Georgetown. I don't know if you know who George Mikan was, but he was one of the outstanding NBA players back in the 1940s. Henry held him to one point. Henry, congratulations for that.

I would also like to congratulate him for his statement. There has been so much political rhetoric about what has been going on over there.

I am sorry I wasn't here for the early part of the meeting. I have one question to ask you, but I would just like to make one brief statement, and that is there have been three elections. They now have a government. It took the United States of America 9 years from the Articles of Confederation to our Constitution, and they have done it in 3 years. It is in large part to your efforts and other people's efforts, as well as the Iraqi people's efforts. I think you can be justly proud of that.

Now we have gotten Mr. Zarqawi, the prince of terrorists according to Osama bin Laden. That lets every terrorist know around the world that they are not safe wherever they hide. If they are watching, they now know that the United States can get the top guy, and if they keep it up we will get them as well.

I would just like to ask you this question. I heard what the President said today. I watched his statement. I thought it was very good, but I would like to know, Ambassador Jeffrey, since you are

the chief advisor to Secretary Rice, from your perspective, what does Zarqawi's death mean?

Does this mean a deterioration in the terrorist activities, or should we expect more terrorist activities? What do you think this does to the leadership of Iraq as far as how they feel about the terrorist threat?

Mr. JEFFREY. We don't have a settled position at that level of detail in the Administration, Mr. Burton. My personal belief from my time there and continuing on to the current time is that Zarqawi and his role in this whole thing has been critical and that he has in some respects diverted much of the insurgency into an horrific and acronistic nihilistic attack on any sort of civilization that has made it very hard for the political process, which we are all working so hard to bring in people.

I watched in Fallujah in 2004, and then again in the last few months in Ramadi, how Zarqawi and his henchmen went out after folks who had been insurgents, but were also willing to at least talk with us and in some cases, for example, in the elections in December cooperated to ensure that those elections would take place. He hunted them down one after the other.

Obviously organizations are more than the individual, but particularly with terrorist organizations don't underestimate the importance of a single dynamic evil leader like him. We will have to see, but this cannot be a bad thing for us. Let me put it that way.

Mr. BURTON. I think this is a good day for President Bush and his stick-to-itiveness, and I think that everybody in the Congress, regardless of our political persuasions, congratulations our military and the leadership over there on getting the job done and getting that guy. Now on to Osama bin Laden.

Thank you very much.

Ms. ROS-LEHTINEN. Amen. Thank you.

I am so pleased to yield to the gentleman from New York, Mr. Engel, for his questions.

Mr. ENGEL. Thank you very much, Madam Chairwoman. Before I ask my questions I just want to say in response to our Chairman, you know, not everything that is being said is being said for political reasons. I think that we all have to understand that there is a very much heartfelt feeling in America that we have gone off the wrong track with the war in Iraq.

That is a feeling that many of us feel, including someone like myself who voted to authorize the President to use force. People always say if you knew then what you know now would you have done the same thing? If I am honest with myself, I have to really say no, I would not have done the same thing because it isn't so much that there were no weapons of mass destruction found. It isn't so much that Saddam Hussein, his was a brutal dictatorship and the Iraqis are better off with him deposed. No doubt about that. We are moving toward a democracy in Iraq.

The way this war has been conducted, it seems to me, that the Administration didn't seem to know what they would encounter. We were told that we would be welcomed as liberators, not conquerors. Polls now in Iraq have shown that every side wants us out. The Administration didn't seem to have any kind of exit strategy. They didn't send enough troops, in my opinion, to secure the

borders. General Shinseki said that we would need a quarter of a million troops. His remarks were dismissed, and then he was dismissed.

What we now have, this so-called insurgency, are really foreign jihadists coming in from Syria and other places across the border. Once that sort of took hold it was impossible to get rid of it.

We fired every one of the Ba'ath Party so we had hundreds of thousands of disgruntled, essentially, civil servants angry, without a job and without any kind of help for their families, so it turned large segments of the population against us.

Here we are 3 years later. We are still trying to get it right. I am happy that Zarqawi was killed today, and I really hope that we can right the course, but I think that for people to say that the opposition to what is happening in Iraq is just simply political, it is really not fair to say that. I think there are a lot of us who are scratching our heads and saying you know, the Administration didn't seem to know what they would encounter and are really struggling to get it right.

I think the problem is with infrastructure is people on the ground there don't see any improvement in their lives and so they blame us for it. Since the President declared an end to combat operations 3 years ago, the standard of living of the Iraqis has not really risen appreciably.

In the most recent report to Congress, the Special Inspector General for Iraqi Reconstruction said that more than 75 percent of oil and gas reconstruction projects begun with United States assistance still remain incomplete. More than 50 percent of electricity reconstruction projects are still unfinished, and approximately 40 percent of water and sanitation reconstruction projects remain incomplete.

I guess my question to the gentlemen on the panel, and of course I know Ambassador Jeffrey from his other life in Albania, are we wrong in being so frustrated? I mean, I don't want to be negative, but I have to be realistic when my constituents say to me, "What is going on in Iraq?"

Mr. JEFFREY. We are all a bit frustrated that we haven't been able to move forward faster. The President recently talked about his own mistakes on this. Secretary Rice talked about the famous quote of a thousand tactical errors.

We are aware that not everything has been perfect, and we put it in writing. It was difficult under the best of circumstances, and this is a very, very tough one, and it is going to take perseverance. It is going to take more time.

I would say that you are right that the perception of the people on the ground, and we all have heard this being on the ground ourselves. You Americans can put a man on the moon. Why can't you get the water on?

Several reasons for this. First of all, in some respects it is not correct. Today, the Iraqi income is double that of several years ago. The country is growing. Unemployment has dropped substantially in the past year. I don't want to give the specific figures because I don't trust the specific figures, but it is a proportional drop. It is significant.

We do have 3 million more Iraqis consuming potable water than we had before the war. Stuart and I disagree and we are having a hard time figuring out what the level was before, but we are in agreement that there are 3 million more. It is the same thing with 5 million more people have access to sewerage.

There are 6 million cell phones in Iraq. There were almost none before we liberated the country. Internet cafes have sprung up everywhere. Around Iraq we talk about electricity problems all of the time largely because we focus on Baghdad, and there are several reasons for that, but in the rest of the country, sir, there is much more electricity per day than there was before 2003 because Saddam cut electricity in much of the rest of the country to keep Baghdad burning 24 hours a day.

There has been perceptible, measurable increases in a variety of areas. These are not enough to satisfy the Iraqi people, who have suffered under a terrible tyranny for 30 years and are thirsty to return to the era when Iraqi per capita income was that of Spain. It is now one of the lowest in the world.

We have a long way to go. We are very, very cognizant of that. We are impatient ourselves. Thank you, sir.

Mr. ENGEL. Can I just say that the former director of USAID, Mr. Natsios, made some public statements recently, and he said that the Coalition Provisional Authority really has been inept in overseeing the reconstruction of Iraq.

He cited the CPA's hiring of ill-qualified personnel, the use of ill-qualified or corrupt contractors and the lack of proper management and accountability systems to oversee the reconstruction.

I am wondering if anyone can tell me what measures the Administration has been undertaking to prevent the incompetence that was prevalent under the CPA to ensure that the current reconstruction efforts are being managed properly?

Ms. ROS-LEHTINEN. Thank you, Mr. Engel. That is an excellent question, and perhaps in the next round of questions with the ones who follow Mr. Engel you can answer that.

I am pleased to yield to Mr. Delahunt for his questions.

Mr. DELAHUNT. You know, my understanding is that some are not concerned about the \$9 billion that is missing. It is still \$9 billion. If it is Iraqi money, some would suggest that is okay as long as it is not American dollars.

I don't think that is your position, Mr. Bowen, because that \$9 billion could have been utilized in a very effective way and move things along, so I would suggest that those who say well, that is not American taxpayers' money, I think that is a real error because maybe if we had \$9 billion we would be further along in terms of the reconstruction and getting out of there. Would you agree with that, Mr. Bowen?

Mr. BOWEN. I would agree with it, and I issued the audit because I was concerned about the issue.

Mr. DELAHUNT. I know. I read the audit. Great work, okay?

The Ambassador indicated earlier that we had to go in there because I think he said something like the UN asked us to. Well, I don't think it was the UN that asked us into Iraq to begin with. I don't want to misstate your words, but—

Mr. JEFFREY. No. I didn't mean it that way.

Mr. DELAHUNT. Okay.

Mr. JEFFREY. On the money, you are absolutely correct. This is money that was given to us. It was Iraqi money. We were responsible for it.

Mr. DELAHUNT. It came from the Oil-for-Food Program, correct?

Mr. JEFFREY. Right. We were responsible for it.

Mr. DELAHUNT. We were responsible for it, and we should be investigating it. I applaud the Special Inspector General for his report despite the fact that some appear to be disappointed with it.

Mr. JEFFREY. If I could add—

Mr. DELAHUNT. I don't have a lot of time, Ambassador, but let us be very clear that it was the United Nations that initially brought the issue of the missing \$9 billion to the attention, I understand, of the Administration.

Mr. BOWEN. No, that is not true.

Mr. DELAHUNT. No? Okay.

Mr. BOWEN. This was entirely—

Mr. DELAHUNT. I thought it was the IAMB that raised the issue.

Mr. BOWEN. No, they did not. We brought it to their attention actually, and it was simply the product of hard work by SIGIR auditors in Iraq.

Mr. DELAHUNT. Very good.

Mr. BOWEN. I mean, the audit speaks for itself, but we interviewed nine senior advisors who were the effective ministers at the time, and it catalogs a series of issues that led to the conclusion that there were insufficient controls.

Mr. DELAHUNT. Thank you. Just let us not dismiss it as \$9 billion missing.

You know, Mr. Kunder, you indicated in your response to Mr. Lantos' statement about fraud, mismanagement and abuse, I presume then that you disagree with the former Administrator of USAID, Mr. Natsios, who cataloged what I would only describe as his frustration with the Administration in terms of the operation of the reconstruction phase for a year. Do you agree or disagree with Mr. Natsios?

Mr. KUNDER. I am glad whenever Mr. Bowen puts anybody in jail who is a crook. The point I was making earlier, sir, I thought we had lost the bubble between the \$9 billion and the appropriated funds and what could reasonably be criticized as not being effectively spent, on the one hand, versus waste, fraud and abuse. I was just trying to draw the distinction.

Mr. DELAHUNT. Fine, but I would suggest that when Mr. Lantos spoke about waste, fraud and abuse he wasn't just referring to Mr. Bowen's report. He was referring to people within the Administration such as Mr. Natsios.

Mr. KUNDER. And what Mr. Bowen has just testified, sir, is that overall waste, fraud and abuse has not been a major problem in the appropriated funds. That is what he just testified to.

Mr. DELAHUNT. Let me add the noun "mismanagement" then. Do you agree with Mr. Natsios' assessment or do you disagree?

Mr. KUNDER. Mr. Natsios has now left the Administration. He can write whatever he wants. He was my former boss. We had policy disputes on many of the issues.

Mr. DELAHUNT. Do you disagree with Mr. Natsios? That is all.

Mr. KUNDER. I disagree with his current assessment, yes.

Mr. DELAHUNT. Okay. Thank you.

I would like to get to the issue of the donor nations. My understanding is that according to reports recently Iran is prepared to participate in the reconstruction.

In fact, I thought it was interesting that the new Prime Minister indicated that—let me quote—“Iran has a right to develop nuclear technology, and the international community should drop its demands that Tehran prove that it is not trying to build nuclear weapons.” I find that kind of an interesting development.

Do you care to comment, Ambassador, and do we welcome the Iranian participation in the reconstruction of Iraq?

Mr. JEFFREY. The Iranians are contributing with \$10 million as a Madrid pledge in the Iraq reconstruction facility. As Secretary Rice said last week in talking about our policy toward Iran, we look forward to the day when they do responsible things, and we will——

Mr. DELAHUNT. Ambassador, were you surprised somewhat by his comment relative to let us lay off Iran and pressing them on the nuclear weapons issue?

Mr. JEFFREY. I was not totally surprised because I think that the Iraqis have to live with a big and potentially very aggressive neighbor, and I think that we will work with them to ensure that in the future——

Mr. DELAHUNT. So we don't have a problem if Iraq supports the Iranian position in terms of the development of enriched uranium?

Mr. JEFFREY. I wouldn't characterize it that way, but if Iraq did we would certainly have a problem, sir.

Ms. ROS-LEHTINEN. Thank you, Mr. Delahunt.

Mr. Sherman, I apologize for bypassing you. You have 3 extra minutes for that. Thank you. I apologize.

Mr. SHERMAN. I don't know whether I will afflict all of our colleagues here with a full 8 minutes, but we will see how it goes.

I want to associate myself with Mr. Lantos' comments about how Iraq's fellow Arab states should be doing more. I know the response focused on efforts the Administration is undertaking to get the Arab states to at least forgive some of the debt. It would sure be nice to see some cash as well.

I think you are right to focus on debt forgiveness because most oil rich countries do their development not from aid, but from borrowing, and the amounts of aid that Iraq will receive no matter how we put it together going forward at least from there were extraordinary amounts of aid that Congress provided in the first 3 years after the liberation, but, going forward, an awful lot of the development of Iraq is going to be with borrowed funds.

The problem is Iraq can't borrow if it still has enormous debts. When the first supplemental came to Congress, some \$17 or \$18 billion, many of us argued that at least half of that should be loaned, and the Administration was vociferous in saying no, it must all be aid because Iraq can't afford to borrow. They already have too many debts.

Now, the Paris Club has forgiven some debts. The Arab states haven't. Is that correct? I am seeing a soft yes from the Ambassador. He is nodding his head. I will call that a yes.

Now, our troops have shown great courage, but winning this war cannot be done just through the military. It must also be done through development, and the most important part of financing development is the Iraqi Government's ability to borrow.

The question is whether there will be courage in the State Department approaching some small percentage of the amount of courage that we see from our troops on the field because we see the Arab states asserting some \$64 billion of debt from Iraq, perhaps even more, and \$57 billion of this debt which is hanging over the Iraqi Government preventing them from borrowing and developing and providing the electricity and whether there is electricity in Baghdad.

That is not just a utilities issue. Hundreds of American soldiers will live or die based on whether there is electricity in Baghdad, based on whether there is development, based upon when we feel that we can pull out, so we are talking about lives here.

That \$57 billion from just two countries, \$30 billion from Saudi, \$27 billion from Iraq, is the big debt that is hanging over the Iraqi Government. Now, with Iraqi borrowings they can kind of be divided into two categories. Some of the Paris Club members provided money to build infrastructure that helps, for example, the oil come out of Iraq to pay for those debts. Some of that infrastructure is still there.

What did Saudi Arabia and Kuwait lend the money for? They lent the money for a war of aggression and debt launched by Saddam Hussein against Iran. They did so because they thought it was their own geopolitical interest.

Well, what has been the world's attitude toward lending money to finance wars of aggression? Were Hitler's debts repaid? Were Genghis Khan's debts repaid? This gets to the courage part. Why does the State Department not have the courage to simply announce that it is U.S. policy that the debts of Saddam Hussein are null and void and, in particular, those debts to countries which for their own geopolitical reasons financed the debts of close to millions of people in the Iraq/Iran war should not be repaid?

That would lift \$57 billion of debt just to Saudi Arabia and Kuwait, another \$4 billion to Qatar, another \$3.8 billion to the United Arab Emirates, countries that feared Iran and were all too happy to finance Saddam's war of aggression.

Why does the country of Kuwait, that owes its existence to the courage of American soldiers, now see them die on the battlefield in Baghdad and throughout Iraq because of its own intransigence?

Most importantly, why is the State Department so silent that some midlevel bald congressman from California has to be the one bringing this issue up? Why is the President of the United States holding hands with the, I believe it was then-Crown Prince, now King? Why is he not standing up and saying the blood of Americans should not be shed to provide for the repayment of these loans to Saddam Hussein?

Ms. ROS-LEHTINEN. Never doubt your ability to use up the time, Mr. Sherman. Thank you.

Mr. JEFFREY. To answer that briefly, and I will be on solid ground on one part of it and maybe on thin ice on another. The

President feels exactly the same way. He has charged us to get this debt removed just as the debt in the Paris Club was removed.

He has engaged himself I know with the GCC states in this regard. He has sent Secretary Rice out, and we are going to be launching a new effort now that we have the Iraqi Government set up, and I think that is an important prerequisite, frankly, to put additional emphasis on this.

The one thing, and this is where I am on a bit of thin ice here, as I understand the conflict, the debts that flowed to Saddam were not to fund the aggression per se. Saddam, on his own, with money that he had built up, invaded Iran. Very quickly he was thrown out of Iran. Much of that 8-year horrific war took place as the Iranians moved into Iraq and attempted to take over the south of Iraq, particularly the area around Basra.

Most of the money that the Arab states gave Saddam was because they feared that the Iranians under that very, very dictatorial leadership would seize the southern Iraqi oil fields. That was their logic in doing it.

Mr. SHERMAN. I would just comment in this case time isn't money. Time is lives. I hope you act quickly.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Sherman.

Mr. Payne?

Mr. PAYNE. Thank you very much. I am also pleased that there is a hearing that is being held. I was here earlier and did hear the discussion about the lack of a hearing.

I have never seen an issue that is so important to this country that has had so few hearings to deal with the situation. It is almost disgraceful. Twenty-four hundred deaths almost, billions and billions of dollars spent, and we have had one or two hearings sort of like it is just a little something that is going on in another part of the world.

It seems to me we should be having monthly hearings about what is going on. I wonder how many of the 133,000 troops will have to stay there longer? I wonder what is happening with the 263,400 supposedly Iraqi security forces? I wonder what this 117,900 operational military force under the Ministry of Defense is supposed to be?

I am concerned about this so-called 145,500 police commandos trained under the Ministry of the Interior that is supposedly 325,000 ISFs that are supposed to be on board by August 2007.

I have never seen something so important to the United States of America have such little public airing other than what you read in the newspaper. It is almost like there is a great silence going on. It is just something that if you don't talk about it, you know, it just will go away.

I haven't heard. What about the Coalition of the Willing? Where are they? Is it growing? Do we have more willing people? Of course not. The so-called Coalition of the Willing, which was so-called, is even diminishing. The Italians are leaving. The Spanish are going. The couple of hundred that we have from maybe one of the central independent states, new independent states in eastern Europe, are leaving.

We are pleased that we were able to get the top terrorist and eliminated him, and that is excellent. Of course, there is a \$25 mil-

lion reward, so we have to put up for the next guy I guess maybe \$15 million to try to take out the next head of the terrorists.

You know, we got into something ill-advised, didn't have to be, tied out to al-Qaeda up to Saddam Hussein when the two weren't even connected. Of course, once Saddam was gone they found certainly breeding grounds to build al-Qaeda up, but Saddam didn't go forward with that stuff. Anybody that acted up on that Islamic fundamentalist stuff, he would throw them in jail or maybe just I guess eliminated them.

So now we have the breeding ground, 2,400 deaths, thousands wounded, and I don't know whether we are winning so that we can leave by August 2007. I just wonder if someone could tell me just in a general sense. I guess it will be another year and a half or so before we have an opportunity to talk about this again at a Full Committee hearing.

Mr. Ambassador, how do you think we are doing? Are we going to be able to get our troops out? Will the Iraqis be able to provide security for them? I remember when Saddam Hussein said you know, the inspectors, Hans Blix and the inspectors, can go anywhere they want to go because the bluff was over. He knew he didn't have the weapons of mass destruction and biological and chemical weapons. He bluffed the world, but the bluff was over. Let them go around because he knew they would find nothing.

Our President said do you know what, inspectors? We will give you 48 hours to get out of Baghdad, get out of Iraq, because we are going to have shock and awe. Do you know what, we are just going to be there for 6 or 7 months, and then we are gone.

You know, they would have confirmed as we know now that there were no weapons of mass destruction and, secondly, that it wasn't Saddam Hussein that went into our World Trade Center that I could see from my house in New Jersey every day when it was there when we should have been in Afghanistan after the al-Qaeda people that did it. We don't even hear that guy's name anymore.

We should have put 300, 400, half a million, as many as we needed into Pakistan and found that murderer and eliminated him, but we decide we are going to go into Iraq. He is still around making tapes somewhere.

I have people in my district, hundreds and hundreds and hundreds because they leave Newark by the PATH trains and go right to the World Trade Center. I saw one of the widows just last week at a graduation of an elementary school, a 5- and a 7-year-old.

That is where we should have put all of our might to get Osama bin Laden and those murderers that killed people in my district. We are stuck over there now with these numbers that make no sense.

Does anybody have a response?

Mr. JEFFREY. Yes, we are winning. We cannot give you a time, Congressman, when we will finish the job, but we know why we are there now.

Regardless of what happened in 2003 or 2004, al-Qaeda is in Iraq in a large presence, and we can't leave that country with its wealth, with its geographic position, to al-Qaeda. Therefore, we are going to destroy al-Qaeda in Iraq.

Our goal is not to do this indefinitely with our forces, but with the Iraqi forces. You gave the numbers accurately. I can assure you this is not anything other than a crude measure of confidence, but they are dying at a rate two or three times greater than the coalition forces.

The coalition troops themselves, the non-American, are still at 20,000. We had a soldier from the coalition who died just yesterday or the day before. The British have lost nine people killed out of their contingent in the last month alone, so they are fighting, and they are dying, and they are staying the course.

The Italians eventually will leave, and that is something that we recognize. You will remember countries started reducing their presence when we reduced our presence back in December from 17 to 15 brigades. Countries saw that as an indication that if their area was quiet they could start reducing their forces.

By and large, other than the British in Basra, the areas where most of these coalition forces are are quiet. On the other hand, the Albanian troops in Mosul, we have troops from a number of countries in Anbar Province, the most dangerous in the country actually in Haditha, for example, and in other places, and those folks are staying on because we need them there.

I am pretty sure that we can count on this coalition of troops into the future, and I think that they are doing this because they believe that America will protect them and be their ally in the future as they are our ally now.

Ms. ROS-LEHTINEN. Thank you, Mr. Payne.

Mr. Crowley?

Mr. CROWLEY. Thank you, Madam Chair. I want to thank the Chair for holding this hearing, the second ironically in the last month on this issue of Iraq, but I also want to agree with my colleague from New Jersey that we have not had enough hearings, and we ought to have a more regular scheduled set of hearings. We hope that this is an indication that in the future we will have more regular hearings on the issue of Iraq.

It is somewhat difficult to talk more about mundane issues with obviously the success of the elimination of al-Zarqawi having been announced today, but I think it is important just to go back to a couple issues. If they have already been addressed forgive me because I was outside the room.

According to recent statistics that I have seen, Iraq reportedly has nearly 600 billion barrels a day refining capacity at eight refinery facilities. Because of looting, sabotage, deferred maintenance and an unreliable source of electrical supply, refinery operations have been insufficient for domestic needs, therefore requiring Iraq to import additional refined resources costing the country \$200 to \$250 million per month, not including government subsidies that result in a 10 cent per gallon pump price. Now, the DOE estimates that direct and indirect fuel subsidies cost Iraq \$8 billion per year, and I quote, "with no indication as to when this problem might be resolved."

With all the problems that they are facing, how do you suppose that rebuilding Iraq can be funded through this process?

Mr. JEFFREY. You have hit the nail on the head, Congressman, in terms of the refinery operations. Part of that is bad maintenance. Part of it is an area where the Iraqis need to do more.

In fact, much of the \$3 billion of their own money that they have earned through their oil sales that they will be putting into the oil sector will go to refinery capacity because, as you said, they can save a hell of a lot of money by refining their own oil, which they would sell for \$70 a barrel, but the amount of product that they get by refining that at the cost of importing fuel is a tremendous difference.

Part of the problem is also, however, security. About half or more of the refinery capacity is just to the south of Baghdad or to the north in Baiji, both areas where we have seen very extensive insurgent intimidation of the people who are working. We lost 11 engineers, for example, in two incidents in Baiji who were killed by insurgents.

Part of our plan is using Iraqi forces supported by our own to get control of the security in that area. We have had some success from Kirkuk to Baiji, and we are working from Baiji down to Baghdad. It will take some time, but that is an area where after years of not seeing much progress we have made progress in stopping the attacks on the lines, and we need to expand that.

This is something that both we and the Iraqis support at the very top of the agenda, sir.

Mr. CROWLEY. So you are suggesting there has been some progress made in terms of addressing the security issues?

Mr. JEFFREY. Right. What we did or what the Iraqis did was from what were called strategic infrastructure battalions. Frankly, for the first 9 months of their existence they were part of the problem, not the solution.

Then General Casey, with a lot of support from the Administration—this went up at very high levels—put Iraqi troops with these forces. Our own troops were doing over watch. We have had only a couple of hits on the main set of pipelines between Kirkuk and Baiji in the north. We now have to expand that with other battalions running from Baiji south to Baghdad because that is crucial, and the insurgents are trying to choke off Baghdad.

I think I was a skeptic 6 months ago. I am now much more optimistic.

Mr. CROWLEY. What are we doing in terms of encouraging the new regime to deal with the issue of the debt that has been incurred by this? Apparently it is my understanding that they have been kind of not addressing it at all at this point.

Mr. JEFFREY. It is not because they don't think it is important. It is just that they don't service the debt right now.

As your colleague, Mr. Sherman, said, the debt is crucially important because it is a limiting factor on their ability to take loans which in many respects are a more economically efficient way of funding their future.

The debt issue is a very, very important issue. As I said, the Iraqis, faced with the kind of problems that we could only hardly imagine from here, don't see the debt as high a priority as we do because, as I said, they are not servicing the debt payments.

Nevertheless, we have taken on the task of working with them on these countries in the Middle East who are the main holders of Iraqi sovereign debt. We were very successful in the private sector. We were very successful with the Paris Club. That was about another \$40 billion. We need to work to get this mountain down.

Mr. CROWLEY. Thank you.

Ms. ROS-LEHTINEN. Thank you, Mr. Crowley.

Mr. Carnahan?

Mr. CARNAHAN. Thank you, Madam Chair, and thank you, gentlemen, for being here. There are three areas I wanted to talk about—the newly-elected government, the security forces training and oil revenue again—and really want to start with now with Zargawi eliminated I thought back to about the time we were in Iraq in March of last year, and we met with many of the newly-elected officials. They were very optimistic.

We met with all the different groups, and they all had some great common themes of unity and asking about our system here in the U.S. and how they could have a diverse unity government. They were all very optimistic. That was one of the things that impressed me most. We got this same feeling from all the different groups.

They have had some rough times since then, but with these new ministers appointed I guess I wanted to ask how well do you think this government can go forward in terms of finding a national identity versus the sectarian divisions, and at what point if they don't come together do we need to consider things like Senator Biden has suggested that maybe we look at some stronger regional governments to really orderly govern the country?

Mr. JEFFREY. The first part of the question, sir, is one that is impossible for us to judge because in any international or even domestic political situation into the future you can't tell. You can't judge what is in people's hearts and whether they understand the magnitude of it.

I think it is important for us as their friends to make it clear to them that they have to make the right choices and that these choices are hard. For example, de-Ba'athification, dealing with the detainees, dealing with issues of sharing of oil, regional versus Central Government. These are all very important political issues.

Some of them, for example, Central Government versus regional powers, were at the heart of our own disputes in the United States for the first 90 years of our existence as a national state. They have to deal with this.

Our job I think in part is not only to point out possible solutions which in the end they have to decide on, but also to make it very clear to them that we can't subsidize bad decisions in the long run because in the end it will not work with or without our forces in the international community. They have to take the right choice.

We do not think that any kind of splitting up of the country or Yugoslavization of it is a good choice. We think it would be terrible for the country. We think that the countries around the region would be extremely nervous, that they would react in bad ways and that we would have more rather than fewer problems, so part of our mission is to make sure that the Iraqis understand that and

to make them understand that they do have to take these—I will be honest—terribly hard decisions from their standpoint.

Mr. CARNAHAN. The other area I want to ask about is really the training of troops and police forces of the Iraqis.

We toured a very impressive facility in Jordan when we were there. They had very aggressive goals of training numbers of troops to get them on the ground. My understanding is those goals have not been fully reached, and I wanted to ask about where we stand with the training.

Secondly, I understand we have also had some repeated offers from Egypt that has training facilities and where we are with those offers and again looking at other ways to ramp up and speed up the training process.

Mr. JEFFREY. The training program again is absorbing, assuming we get the DoD supplemental, almost \$15 billion of United States funding since 2003 and certainly well in excess of \$5 billion in Iraqi money, so it is a major, major effort, and it is producing, as we indicated, 260,000 trained and equipped personnel.

The army training program, basically to get the light infantry units on the ground and replace a lot of our troops, will be finished by the end of this year. That doesn't mean that they will have an army as you and I understand it. They won't have a lot of the logistics. They won't have much of the heavy armor or indirect fire weapons, but that will come later. The key thing that we put our priority into was to get their troops out on the ground, and we are going to be pretty well finished with that.

The police frankly are going to take longer, and that is the long pole in the tent because police are really important in any counterinsurgency. With the Iraqi police it is not just a question of training and equipping them, but it is also getting the Iraqis to do the job that they need to do.

The second part of your question, sir, was?

Mr. CARNAHAN. About the Egyptian offer of training.

Mr. JEFFREY. The Egyptian offer. We have sent an Iraqi infantry unit, for example, in 2004 to Egypt to be trained, but the problem with that is, as you can imagine, taking a police squad or an army squad or a football team, an offensive line on a football team. You can't take those folks and send them off to five different training centers to train with different tactics, to train with different techniques and such and then put them together and form them as a team.

Thus, our belief is that training has to be uniform for the police, and training has to be uniform for the Iraqi army because they are in a life and death battle. What we are urging people to do is to contribute to the training facilities in Jordan, to contribute to the NATO effort where we can have control over that training.

All around the world, and we do it and everybody else does it, companies and police units and individuals go to another country and they learn how people do things. That is good for building interoperability and building good relations, but if you have a life or death mission of standing up a large force, you want that force to be standardized. Therefore, I think that using these schools and using NATO and Jordan is the way to go, sir.

Mr. CARNAHAN. One last question. I think we are wrapping up on time. Do we have a strategy to use the potential oil wealth in the country and develop it? I know there have been issues and others have asked about it, but to develop that without further U.S. contributions and also to be able to leverage private sector financing to get that off the ground?

Mr. JEFFREY. We have a major oil study underway. We have approached the Iraqis several times with a lot of expertise from the international oil private sector. We think that not just in Iraq, but particularly Iraq, the way to exploit your oil reserves, the way to develop an efficient, modern oil industry is to have international private sector participation, investments and that sort of thing.

We are pushing this every way we can. I have to tell you that in the Middle East, as opposed to Central Asia, we have not had as much success, and as a result people are not able to use their reservoirs as well as they should, but we will keep trying with the Iraqis because we think it is absolutely essential.

Mr. CARNAHAN. Thank you, Mr. Ambassador.

Ms. ROS-LEHTINEN. Thank you, Mr. Carnahan.

Mr. CARNAHAN. Thank you, Madam Chair.

Ms. ROS-LEHTINEN. I would like to make some concluding statements. I thank the witnesses for being with us, an excellent panel.

As Chairman Hyde said, when we discuss reconstruction we have to do so in a balanced way instead of just focusing on the negative. There have been so many positive developments in Iraq, and I would like to just conclude by reading some of them.

On the political side, Iraqi leaders achieved a political breakthrough when the Iraqis said we are going to stand up a government. They had a new Prime Minister. He formed a government that can respond to the needs of the Iraqi citizens.

The Prime Minister is committed to making sure that we have national unity in Iraq. The Parliament has their nominees for the cabinet posts. Just this morning they had their Interior and Defense ministries up. If no agreement is made on the nominees, he will exercise his constitutional right to put forward his own nominees for a vote.

We can't forget about what happened in Iraq under Saddam Hussein just a few years ago. The misrule of Saddam Hussein has been overthrown now. Iraqis have participated in three historic elections, each one with a greater participation of Iraqi citizens with less violence and broader political participation from all sects.

The Iraqi constitution is arguably one of the most progressive constitutions in the Arab world, providing a legal framework based on a democratic process, based on inclusiveness. The Iraqi people will have the opportunity to amend this constitution and make more improvements after new government is fully in place.

On the security aspect, a lot of positive developments in Iraq. Trained Iraqi security forces are growing. They are assuming a larger role. They are responsible for almost 20 percent of the land area of Iraq, including over half of Baghdad. Approximately 265,000 security forces have been trained and fully equipped.

The Iraqi Prime Minister is committed to ending the sectarian violence that we have been seeing. He has been disbanding private militias. He has pledged to implement a new security plan for

Baghdad that will address these concerns, along with the statements he has made about international participation. We have seen 34 countries and NATO support Iraqi stability operations.

On the reconstruction and the economic front, Iraq is slowly recovering after 30 years of an evil dictatorship. The Iraqi economy is showing some signs of growth, and Iraq is working toward World Trade Organization accession.

Over 3 million Iraqis now enjoy improved access to clean water. Over 5 million have improved access to sewage treatment. More than 30 percent of Iraq's schools have been rehabilitated. More than 47,000 teachers have been trained. Approximately 8.7 million revised textbooks and 3 million school supply kits have been provided to students throughout the country. Ninety-eight percent of the children of Iraq under five have been vaccinated for polio.

USAID has worked to strengthen the independent media in Iraq. One example is an independent radio station that has been given an independent voice to women. Programming includes music and talk shows that seek to educate women. USAID has restored outdoor markets. It has helped to revitalize the economy and permit entrepreneurs to expand their own businesses.

In the field of fraud and corruption, as we have heard, the Inspector General position was created in response to the allegations of crime and corruption that took place with Iraqi money under the Coalition Provisional Authority, and there are now 70 ongoing investigations into individuals suspected of participating in this criminal activity, and a total of \$13 million has been recovered.

In general, more than 39 countries and international organizations have issued public statements of support for the new Iraqi Government, and certainly today's news about al-Zarqawi's network finally being put down is welcome news for all freedom-loving Iraqis and citizens worldwide.

To get back to the ongoing theme that is so erroneous that this Committee has not held hearings on this issue, I would like to just read again what the Chairman had said earlier, a summary of the oversight on the Iraq war: Nine resolutions of inquiry pertaining to the war in Iraq, five Full Committee hearings, including today's, three Subcommittee hearings, a Members only meeting, seven classified briefings and numerous non-classified briefings.

I think that the best oversight that can be made is to go there and see for yourself what kind of progress we are making. As I said, my stepson proudly served in Iraq for 8 months as a Marine officer. I had the opportunity to come back from another visit to Iraq, and I know what great strides we have made, and I know how grateful the Iraqi citizens are for the great participation that they have gotten from so many strong allies who believe in freedom and who are unafraid to fight for that cause.

With that, the Committee is adjourned. Thank you to the panelists.

[Whereupon, at 1:16 p.m. the Committee was adjourned.]

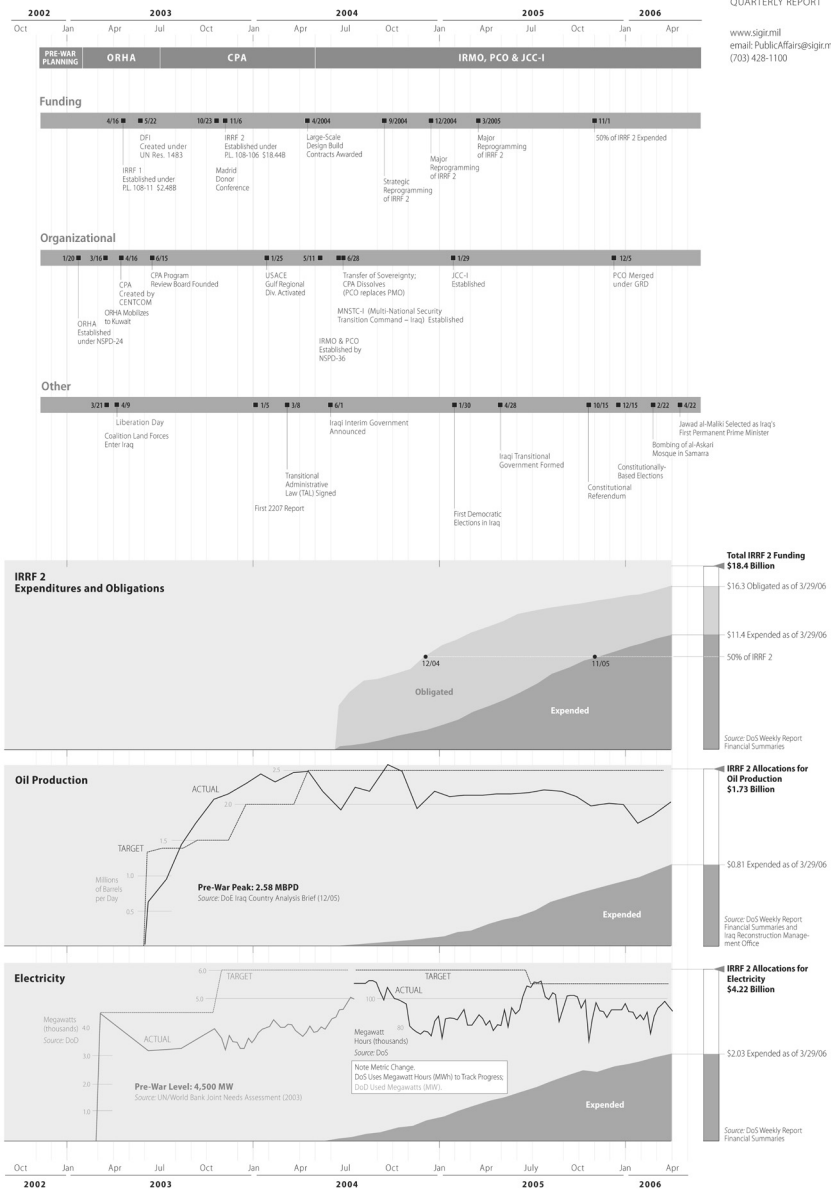
A P P E N D I X

MATERIAL SUBMITTED FOR THE HEARING RECORD

IRAQ RECONSTRUCTION TIMELINE
Key Events
Expenditures for Oil and Electricity Sectors

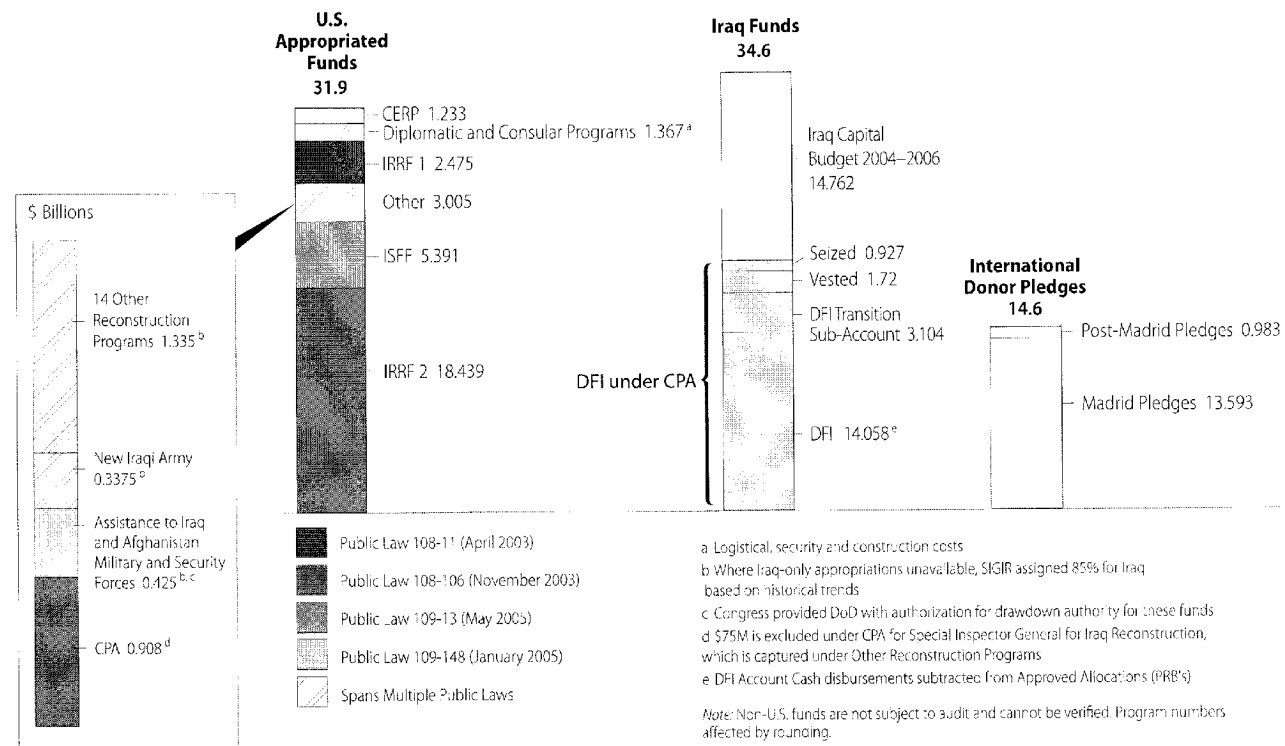


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Sources of Iraq Relief and Reconstruction Funding—\$81.1 Billion

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PREPARED STATEMENT OF THE HONORABLE SHERROD BROWN, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF OHIO

Thank you, Mr. Chairman, for holding this hearing on U.S. policy on Iraq reconstruction issues.

But first, I would like to commend our troops for a major advance in the war on terror. Last night, Abu Musab al-Zarqawi, who was responsible for hundreds of bombings, kidnappings and beheadings in Iraq, was killed in an air strike northwest of Baghdad.

Before we invaded Iraq in 2003, I asked a number of questions of the President and his Administration.

One of the most important things that I asked the President to provide was an exit strategy— a plan for achieving long-term social, economic, and political stabilization of a post-war Iraq, so we – and our troops – could tell when we'd crossed the finish line.

Unfortunately, President Bush provided no strategy or plan.

Today, we are talking about the progress of reconstruction in Iraq—It's crucial that we get this right because the long-term stability of Iraq depends on it.

But the Special Inspector General for Iraq Reconstruction Stuart Bowen, who testifies before the committee today, tells us that we are falling short of expectations.

Recent reports show that necessary infrastructure reconstruction projects-- including oil, gas, electricity, and water and sanitation projects—are still incomplete.

75% of oil and gas reconstruction projects remain incomplete, some 50% of electricity reconstruction projects have not been finished, and 40 % of water and sanitation projects are not complete.

In many areas production levels are falling behind pre-war levels and far below U.S. goals.

Reports of waste, fraud, and abuse by contractors have been widespread. Because of delays and mismanagement, reconstruction will cost billions more than originally estimated.

We cannot tolerate continued failure in Iraq's reconstruction. Failure to stabilize Iraq will fuel resentment towards the United States and the government of Iraq.

I encourage the Administration to fully implement the recommendations of the Special Inspector General. Success in reconstruction will help the Iraqis take control of their own country and allow us to exit Iraq.

It would have been better – for both the American people and the Iraqi people – if the Administration had developed an exit strategy before the invasion. But late is still better than never.